

## Interest, Inflation and Zakah

Interest is used to express many different things. Prior to prevalence of depreciating paper currency there was one and only one form of interest and it was same as Ar-Riba i.e., the interest that is strictly prohibited by Islam. *Ar-Riba* is all bad—a sin of the worst order that is responsible for most of the economic and many social evils. Now we have two forms of interest one is called nominal interest and the other real interest. Normally nominal interest is known as interest. However, real interest is the real interest. While real interest is really all-bad and has all the characteristics of what the interest really is, nominal interest includes part of the capital that the lender is entitled to receive. However, due to out put intellectual stagnation we hold that the nominal interest is Ar-Riba. It is important to note that we have not considered this question directly and with the seriousness it deserves. For example: Supreme Court of Pakistan while delivering its historic judgement regarding abolition of interest considered this question indirectly but has not decided it. It is true that considering the real part of the nominal interest alone as the Ar-Riba will not solve the problem of abolition of interest but it will be of great help in our efforts to completely abandon the interest based dealings.

Interest is the excess amount over and above the amount actually borrowed that the borrower is required to pay to the lender. The amount of the loan and the period of repayment determine this excess. The excess amount per unit of the amount lent per year is called the rate of interest.

According to the holy Quran, Ahadith and the practices of Ahd-e-Risalat (period of prophet), interest relate to the excess of quantity only.<sup>11</sup> Nowadays, it is generally used for excess of nominal value of currency over the nominal value of currency borrowed.<sup>12</sup> This nominal interest is very different from Ar-Riba (the interest during Ahd-e-Risalat (period of prophet)). However, this interest does normally include Ar-Riba (*Rf.Pg- 92 and Rf.Fn. - 86*).

Suppose, Amr needs a loan and Baker agrees to advance a loan of 2 Dinars (8.5 gm of gold) with the condition that Amr will return back to him a sum that will buy 2 Dinars (when he pays back the loan). Suppose, presently 2 Dinars are worth 2500 Indian rupees but six years later when the loan is paid back it costs Rs.5000. As per the practice of Ahd-e-Risalat it is a clear case of interest free loan as the amount borrowed is 2 Dinars and what is paid back is worth to 2 Dinars. In terms of currency, what was borrowed was worth Rs.2500/ and the amount paid back is Rs.5,000/ and therefore, it involves interest. *Thus, if the nominal rate of interest were considered to be Ar-Riba many economic transactions that are same as the transactions that prophet (P.B.U.H.) and his companions (may Allah be pleased to them) actually practised will be found to involve interest.*

*Our failure to differentiate between interest as defined by capitalism and Riba-un-Nasih has caused very serious losses to the community. It has created a patently wrong and impracticable interpretation of divine law. It has compelled many to indulge in interest and those who resisted was marginalised. Unfortunately, despite being the custodians of Quran-e-Hakim and the Sunnah Mubarkah, the Ummah is still unaware as*

well as indifferent to this massive exploitation and oppression. The Muslims have suffered the worst and their economy has been pulverized. Rather, our intellectual activity has declined to such an abyss that the greedy capitalists are circulating the totally baseless propaganda that Islam itself is responsible for the economic marginalization of the Muslims.

It is said that interest paid on money borrowed for investment is a share in profit derived from investment. Arguments are advanced to create confusion regarding banning of this (industrial) interest, however, in reality the industrial interest is no less exploitative than interest on borrowings of other forms. Because, the interest paid is indirectly charged on the masses in the form of increased prices of the products or by keeping labour wages and raw materials prices relatively lower.

Suppose that our cement factories are producing at 70% of their capacity. Now if their production is raised to 85% of capacity then the cement price is bound to fall. Suppose that price per bag prior to and after increase in production are Rs.110 and Rs.100 respectively. Let cost of production per bag excluding interest paid on capital borrowed prior to and after the increase in production be Rs.100 and Rs.95 respectively. Let interest payable per bag be Rs.8 and Rs.7 respectively. Note that prior to increase in production the cement factories were having a net profit of Rs.2 per bag but when the production is raised there is net loss of Rs.2 per bag. This loss is due to the interest as in the absence of interest the factories would have been making a profit of Rs.5 per bag even after increasing production. Clearly, it is due to interest that the company will not increase production. Thus, it is due to interest, that most of our industries produce for below their capacity and employ lesser number of personnel. Due to interest entrepreneurs can not get capital for investment unless they are willing to pay the prevailing rate of interest. Therefore, there is no investment in a business that does not produce profits much higher than the prevailing interest rate. If the interests were banned the competition from others who will be willing to produce with lower profit margins will force existing factories to increase production. Clearly, **interest is the root cause of shortage of supply, unemployment, inflation and exploitation.**

The rate of interest with respect to currency of constant purchasing power is called real interest rate. This can be obtained by deducting rate of inflation from the nominal rate of interest. Precisely speaking it is little less than the value obtained as above.

**Justice is not possible unless the rich are prevented from exploiting the poor. This is best done by enforcing Zakah** that may be said to be a special type of tax that is collected from the rich and distributed among the poor. Every member of the highest of the creation, i.e., the human race has right to live with dignity. Since the owners of the industrial and commercial units including agricultural land and buildings are rich. *The decision of the rich to shut-off the economic and commercial activities can make life miserable and even impossible for poor.*<sup>13</sup> *This is why the right of the rich to withhold capital must be subject to right of the poor to live with dignity.* It is essential to provide for safeguard against the oppression of the masses by the rich. . Let us reconsider the case of the cement factory. If, Zakah were enforced on capital withheld and not charged on productive investment (as it should be) it will raise the cost of withholding capital and thereby raise productive investment, employment and output. Clearly **enforcement of Zakah provides the solution for the**

**problem of increasing unemployment and shortage of supply.** If it is made mandatory for the rich to invest all they can invest, the labour may demand unduly high wages or the masses may force them to sell their products at very low prices. The system will develop features like Communist system and will collapse due to inability of the resulting economic system to motivate people to strive and excel.

Islam that stands for justice for all has adopted the middle course. Accordingly the last of the prophets, 'Mohammed (P.B.U.H.)' acting under Divine guidance held *that 2.5% of the income of the rich (Sahib-e-Nisab) as well as 2.5% of their movable properties including gold, silver, cash as well as commodities held for sale but excluding the capital invested as means of production is the right of the Poor called Zakah. It is to be collected from the rich every year and distributed among the poor.*

When supply is less than demand the prices increase. For example the perishable fruits and vegetables cost much higher during the off season due to poor supply. Similarly the prices of food grains soar when the supply becomes poor due to failed crop and during famines. Thus the **price increase is basically a temporary natural phenomenon that** gets over as the cause is removed. Price increase **involves temporary increase in the prices of certain items with respect to most others.**

## Inflation

Suppose, the number of grams that constitute a kg is reduced to 500. Then, with respect to the new kg our weights will be found to have doubled. Clearly, this doubling of our weight is an illusion. Similarly with respect to the new kg the prices will fall to half their previous level. Clearly this fall in prices is no more than an illusion. Suppose, presently coin of 10 mg of gold is the currency and latter coin of 5mg of gold is made the currency. Compared to previous coins the prices of goods will double with respect to latter coins. Clearly, this price increase is as illusory as the doubling of weights and the fall of prices, discussed above.

Sapiro defines inflation as, "A persistent and appreciable increase in general level of the prices." According to Friedman, "Inflation is always and everywhere a monetary phenomenon.... and can be caused only by a more rapid change in money supply than output." Thus inflation implies a consistent increase in average prices. *Inflation is the Illusion of consistently increasing prices produced by the continuous depreciation of currency.*

*Economists define inflation to include any increase in the prices due to natural cause. However, in order to differentiate increase in prices due to natural causes from the increase in prices due to artificial reduction in the quantity of goods represented by currency we ought to define inflation as the increase in prices due to the artificial reduction in the quantity of goods represented by currency. Accordingly, if the currency were a standard of wealth, inflation will not exist. Paper currency has no real worth and can be depreciated without limit. Government/banks raise money supply, currency depreciates and the inflation continues.*

When average profitability of the economic activities falls, producers<sup>14</sup> tend to maintain it by reducing out-put and employment. Trying to prevent fall in out-put and employment the government raises money supply that increases the rate of inflation. This reduces the real interest rate for the capital borrowed in the past. That reduces minimum profitability for shut-off.<sup>15</sup> Thus, increased rate of inflation acts as a relief for the activities based on capital borrowed in the past. However, this relief is at the best temporary, because, increase in inflation reduces real interest rate and the capitalist creditors raise lending rate. In case government tries to reduce lending rate, the capitalist creditors shift capital to real estate that reduces economic activity and compels the government to allow higher lending rates. Thus increase in rate of inflation causes lending rate to rise. Now, higher rate of inflation is required to maintain the previous level of employment and out-put. Increase in disparity due to interest and inflation; reduce the aggregate human capacity as well as purchasing power of the economy. That reduces the profitability of the economic activities. Finally, the stage is reached where unemployment rises despite increase in inflation. This forces the government to halt the inflationary trend. Thus, inflation finally results in reduced out-put and employment. Clearly, the temporary relief that inflation provides is too small when compared to the problems that it creates.

The fundamental causes of inflation are the dominance of the interest seeking capitalists, non enforcement of Zakah and substitution of gold based paper currency with paper currency. Inflation is the worst tool of exploitation, fraud and deception the world ever produced. It is the dust of interest that has enveloped the globe (*Rf. Fn.-9*). Fraud and corruption created by it are its strengths.

Interest motivates capitalist creditors to invest. Therefore, if interest is banned, capitalist creditors will tend to hold cash. Once Zakah is enforced capital withheld will attract Zakah at the rate of 2.5% per annum. Thus, withholding capital will become a costly affair. Accordingly, ***enforcement of Zakah will ensure that investment will not fall despite banning of interest.*** Banning of interest will remove the major cause that creates the inflationary pressure. Thus simultaneous banning of interest and enforcement of Zakah is required. Once this is done, the reasons that really tend to force the governments to increase money supply (that finally leads to inflation) will not exist and therefore, the problem of inflation will not persist.

*Inflation is the illusion of consistent increase in general level of prices caused by depreciation of currency and there is no real increase in prices ( Rf Fn.-7). Temporary price rise (Ghirani) is temporary but real increase in the prices of certain commodities above and over this general increase in prices.* Our failure to differentiate between these two is one of the fundamental reasons that have led us to an impractical interpretation of divine law. **Inflation is a fraud.** The greedy capitalists are using this tool of deception for total marginalization of justice (Haqq) and therefore, it ought to be resisted with all resources at our command.

## Relation between interest and inflation

Increased rate of inflation acts as a relief for the activities based on capital borrowed in the past. If the prevailing interest rate is low, it will require lower relief and minor increase in the rate of inflation will be enough. Similarly, if the prevailing rate of interest is high, it will require higher increase in money supply (to prevent fall in out-put and employment) that will create more inflation.

Increase in the rate of inflation reduces real interest rate and creditors raise the nominal interest rate to ensure that real interest rate do not fall. Thus, rate of interest rises as the rate of inflation increases. This eliminates the relief that inflation initially provided to the industry. Clearly, interest creates inflation and inflation causes interest rates to rise. Higher interest rate lead to higher rate of inflation and higher rate of inflation leads to higher rate of interest. Economic history of the world proves it.

Clearly, rate of inflation can not be reduced unless the rate of interest is reduced. It is difficult to get present lending rates reduced. Rates of interest agreed in the past can be reduced only through legislation.<sup>16</sup>

## Quard Hasan (Interest Free Loan)

A loan advanced without any consideration of worldly gain is Quard Hasan.<sup>17</sup> It provides a mechanism by that the poor and needy can satisfy their immediate demands (including self employment) on purely non exploitative terms. It is better than charities because it protects the honor of the recipient. It is why prophet (P.B.U.H.) have held it to be superior in goodness to charities. Availability of Quard Hasan is essential to protect people from being compelled to seek interest bearing loans.

Quard Hasan practised during Ahd-e-Risalat (period of prophet) comprised of the lender giving to the needy certain commodities and the borrower returning back the same quantity of that commodity.<sup>18</sup> *Thus the Quard Hasan involved no loss or gain to the lender in real terms.* Suppose, Baker has 10 lakhs and intends to construct a house for his minor son. His brother Zaid do not have a house and requests Baker to lend the said 10 lakhs to him. He says that he will return back the loan within 10 years and Baker may construct a house for his minor son, there after. Suppose that Baker knows that while at present he can construct a house for these 10 lakhs, 10 years later when his brother wants to return back the loan it will not suffice even for a quarter of the cost. It compels Baker to refuse the request.

This example clearly explains as to why no informed person now offers interest free loan, despite the high reward that Islam attaches to it. Clearly, depreciation of currency is responsible for the non availability of interest free loans. Further, interest free loan in a depreciating urrency is very different from the Quard Hasan involving the two cashes as well as from Quard Hasan in respect of other Amwal-e-Rabuwiah. In the case of Interest free loan involving the depreciating currency, the lender suffers a massive loss while in other cases there is no real loss or gain to the lender.

Suppose, someone borrows 10 lakhs depreciating currencies and clears the loan after 70 years. Assume that average rate of depreciation during the said period is 15%. Then in real terms, the money that the borrower returns back to the lender will be just a hundredth part of the money he has borrowed. Clearly, the borrower has eaten away the loan. *Divine law relies on Asl (real) only, and therefore, interest free loan of depreciating currency is the same as a loan bearing a negative interest*<sup>19</sup>. According to divine law not only paying more but also paying less (in lieu of loan) constitute interest. **Therefore, this eating away of the wealth of the lenders by the borrowers due to depreciation is also a case of interest.** Thus, interest free loan of a depreciating currency is not Quard Hasan rather it is a loan, bearing negative interest

## Banking

Banks collect small-small savings from the masses and provide it to the entrepreneurs who use it to set up efficient economic activities. Thus banking seems to play very significant role in economic development. However, in fact the banks are responsible for the major part of injustice, exploitation and oppression produced by the inflationary capitalism. The banking sector is driven by inflation that it produces. The basic functions of the bank are to persuade, allure (and to compel<sup>20</sup>) the people to deposit their savings in the banks and to use these deposits to create more money and to corner most of the benefits of the economic activities constituting the economy.

Banking is a highly lucrative business. Its high profitability is not based on any real (productive) investment rather it is obtained by maintaining large difference between rate of interest paid on deposits and the lending rate. *Difference between these two rates may be called bank's margin of exploitation.* In the absence of inflation the margin of exploitation falls to less than 2% but as the inflation increases a major part of it get added to this margin. *To maintain large margin of inflation sufficiently large rate of inflation is essential.* Further, the rate of inflation is also a measure of degree of exploitation of the masses by the rich and the powerful. The higher be the degree of exploitation and oppression, the higher is disparity, poverty and deprivation. This leads to higher demand of capital. It compels entrepreneurs to accept loans at rates nearly equaling the profitability of planned investment and it multiplies the consumption demand of the loans. This implies a larger opportunity to the banks to create money<sup>21</sup> and to lend it to the business as well as the masses with sufficiently large (bank's) margin of exploitation. Inflation is responsible for most of the economic ills but, the greedy capitalists and their agents (that include most of the economists) continue to preach that inflation causes economic growth. Clearly, it is the vested interest of the bankers (increase in the bankers margin that inflation produces) that is responsible for this fraudulent propaganda.

Regarding the mobilisation of small savings and surplus funds to finance economic activities, it can be done on the basis of profit sharing. Further, the currency being a small piece of paper, the cost of production whereof is almost nil (compared to its market worth), it hardly matters if people retain part of their savings. It rather acts as an interest free loan (Quard Hasan) to the government. As regards Islamic system the charge of Zakah on capital withheld is enough to take care of such problems.

## Islamic banking

Islamic system is essentially a non inflationary system that strictly bans Ar-Riba and therefore, the existing mode of banking will have no place in Islamic system. Depreciating currency is not a reliable measure of wealth and therefore, a truly Islamic bank must not use it as a standard of account (Rf. Pg.- 71 and 97). Use of a reliable standard of account will ensure that an interest free deposit will fully compensate the depositor for the loss in real value of currency due to inflation and therefore, an interest free deposit in an Islamic bank will be preferred by the depositors over the current and saving bank as well as short term time deposits of the interest based banks that use currency as unit of account. Therefore, the act of collecting surplus funds as well as small-small savings from the public to finance large scale operations based on higher technology that are highly productive and therefore, highly profitable shall present no problems. The banks will be able to attract savings from the public on the basis of profit sharing for investment in large scale operations based on higher technology that are highly profitable. Even if expected profitability is low, people will be willing to provide their savings for investment in productive operations on the basis of profit sharing because the capital invested as means of production is not charged to Zakah. Further, Islamic banks will be able to mobilise deposits on the basis of loan for loan.

## Profit and interest

Profit motivates people to take up economic activities. Allah has permitted seeking profit as a valid means of earning rijk Halal. Interest is the worst crime a man performs and we are required to shun even doubtful cases of interest. There are some cases where there is conflict among the jurists, while some hold them as legitimate terms of trade others hold them to be involving interest and therefore strictly Haram. Let us consider the following examples as these examples may help resolve or at least lessen the conflict:

**Example-IA:** Let us consider the sale of a seasonal fruit that can be dried and stored for sale during off season. The price during off season is much above the price during harvesting season. If paid in cash the whole-sellers can replenish their stock. What remains unsold is likely to fetch a higher price during off season. If the traders were to charge same price for a sale on credit (Bai-Muajjal), people will tend to buy all the stock and dry and preserve for the off season. This may put traders off business during the off season..... Expectation of profit by sale of dried commodity during off season is based on experience and can not be said to be mere speculation. Under these circumstances if some extra amount is charged for sale on credit it will not be proper to hold it to be a case of interest because this transaction is based purely on justified profit motive and does not involve consideration of interest at any stage.

**IB:** Now let us consider Bai-Muajjal by a trader say Amr who buys goods from some place-X and sells them at another place-Y where it sells for higher price. Suppose his purchasing price is 8 and selling price is 11. Suppose the supply where he buys is abundant and there is good demand where he sells. His profit is being restrained by his purchasing capacity. The trader from whom he buys may be willing to sell the product for 9 on credit and

Amr expects to make a profit of 2 on the quantity he buys on credit. In this case also there are only two prices and there is no consideration of time but the practice does suggest that Amr will clear the dues when he goes back to the place X.

Some times the goods are purchased on credit intending to clear the dues from some other expected income. Often traders buy from farmers during the harvesting season as the prices then are lowest. They pay higher rate to those who are willing to sell on credit. Payments are normally cleared during the showing season when the prices are highest.<sup>22</sup> Similar cases of Bai-Muajjal were practiced during Ahde Risalat. It should be noted that these transactions simply involve two prices namely the price for sale in cash and the price for sale on credit. There is no consideration of time of repayment although from the practice it is clear that those buying on credit used to pay after selling the material during the off season. Clearly the parties used to be familiar with one other. Those who purchased goods on credit paid the dues in accordance with the prevailing practice. There must have been cases when the buyer failed to clear the dues as expected but there is absolutely no evidence to suggest that any penalty was ever charged.

**Example-2:** Suppose Baker wants to buy 20 kg. of wheat to satisfy hunger. Due to poverty he does not expect to be able to clear the credit in less than three months. Amr will charge Rs.7, 8,9 or 10 a kg depending upon whether the repayment is to be made in cash or after 1,2 or 3 months. There is no reason other than his poverty for Amr to agree for a higher price than the cash price. Such terms of trade did lead to exploitation.

*This case is very different from the cases described in example-1. Clearly the motive behind increase in price with increase in duration for which the credit is sought is interest. The condition that the parties must settle for a price do not change the situation<sup>23</sup>. Clearly it opens a back door for the interest based dealing and Al-Shariah requires that the doors that lead to interest be shut off.*

The cases involving difference in price for sale in cash and sale on credit were practiced during Ahde Risalat and there seems to be nothing to prove that it was banned and yet there is no evidence to indicate that more than two prices were ever negotiated. The Hadith<sup>24</sup> on which the proponents of permissibility of Bai-Muajjal base their arguments uses a dual and not a plural therefore it has nothing to do with cases involving more than two prices. Therefore the prevailing mode of Bai-Muajjal where we are offered a range of prices to select from and the price is higher the longer be the duration of credit, has no parallel in the practices of Ahde Risalat. *Thus being a new case it has to be determined on the basis of Quran and Sunnah and the fact that it opens a back door for the interest based dealing and Al-Shariah requires that the doors that lead to interest be shut off may be enough*

## Interest

Most of the economists very strongly believe that the market economy is not possible without interest. This belief is so strong that most of them think it to be an established fact rather than belief. The problem arises from the fact that the creditors due share in profits is equated to interest knowing it well that it is not. (in case of profits sharing not only

that the entrepreneurs do not have to pay a fixed charge for the capital but also they are not required to bear losses). Once this difference is understood this faith automatically evaporates. Market economy can very well prosper despite complete banning of interest provided creditors are allowed due share in profit and their interest gets social/ government's protection against fraud by entrepreneurs. When Zakah is enforced on the capital withheld the resulting money supply is higher than what the capitalist system can provide. The advocates of interest do not have any substantial argument to support their contention. They ought to correct themselves and the following reasons may be enough to convince those who seek justice.

(i) *Cost of capital argument does not have any substance in it because the currency consists of a printed piece of paper only and the cost of its production is negligible compared to interest that is charged year after year.*

(ii) *Interest transfers earnings and wealth of the poor to the rich that creates economic imbalance.* It reduces consumption of necessities and needs fulfilling goods but increase capacity to invest and therefore, productive capacity. Failure of have-nots to satisfy their necessities and need reduces their capacity that reduces their income. That reduces the consumption further down. Thus, it leads to misallocation of resources that aggravates the imbalance between development of material and human resources.

(iii) *Prevailing interest rate acts as a ceiling and the resources that can not be so employed as to ensure profitability higher than the prevailing interest rate remain unemployed.* This produces unemployment of material resources that produces corresponding unemployment of labour as well. Thus the system fails to properly utilise its productive capacity.

(iv) Capitalist creditor has nothing to do with the conduct of the business as his/her interest lies only in interest and the ability of the entrepreneur to provide collateral alone matters. Thus *incompetent entrepreneurs who can provide the collateral get the loans while the entrepreneurs who fail to provide the collateral due to their poverty do not get loan despite their competence.* Thus interest based mechanism results in selection of rich entrepreneur who may be incompetent against the poor entrepreneurs even if they be competent.

(v) It is well known that in a market based economy profitability of economic activities constituting the economy is widely distributed. Profitability of investment varies very widely. No profit can be earned without some form of investment and when capitals become invested the profitability is highly unpredictable, therefore, there does not exist any justification for granting any fixed return on capital. Return on capital is only due to its investment and therefore, it can not be independent of the investment. When the profitability of the investments falls, the amount payable to the creditor must also fall. *Profitability of investment is subject to natural laws of distribution and therefore, it is not possible to assign a fixed rate of return on capital.* Since fall in profitability normally takes plakhe due to the reasons that are beyond the control of the entrepreneur there is no reason why he/she should bear the loss. Therefore, the creditor must provide the capital free of cost or must also share the losses.

(vi) *The interest based mechanism tends to ensure that the rich will ever remain rich because most of the gains arising out of economic activity pass to them in form of interest.*<sup>25</sup> Thus they continue to grow richer, while the poor do not have opportunity even to get higher education and training and raise the capacity to compete for highly paid jobs.<sup>26</sup> Thus the interest allows the capitalist conspirators to control economic resources even if they are not fit to ensure proper economic growth. Clearly the interest of the humanity lies in its ability to adopt to changing environment and *interest acts as an artificial barrier against natural selection.*

(vii) *Prevalence of interest in the economy implies that the investment is subject to the pleasure of the capitalist,* therefore, it is not possible to protect the have-nots from injustice and exploitation. This because the capitalist creditors will not be pleased unless most of the benefits expected to be derived from the investment are likely to accrue to them (in form of the interest). This will keep most of the entrepreneurs under pressure to maximize profit and that will keep them under pressure to minimize labour wages, reduce raw material cost and to maximize the product prices. This results in massive exploitation of the poor

The entrepreneurs are under compulsion to ensure that the profitability remains above the prevailing interest rate and prevailing interest rate acts as a shield in their effort to keep profitability above that. This multiplies the exploitative potential of the mechanism discussed above. Some respite may be provided by the welfare measures but the continual exploitation and oppression will even extract the relief provided. This is because *irrespective of the measures taken the capitalist creditors will ensure that most of the benefits must reach them.* Exploitation part is further discussed below.

### **Exploitation caused due to dominance of interest**

Interest is the mother of economic evils and it is an important cause of many social evils. It causes Zulm (injustice, exploitation and oppression). It has been widely discussed by the economists as well as the Ulema. This discussion will concern some of the poorly understood mechanisms by that it deprives the economy of all blessings.

(i) As discussed *prevailing interest rate acts as shut-off profitability making all activities less profitable than it nonviable, that reduces investment, out-put and employment.* Further it raises profitability for investment to nearly twice the prevailing interest rate that further reduces out-put and employment.

*The reduced employment produces an army of unemployed workers that allows the owners to compel the labour to accept minimum wages.* The falling investment compels the suppliers of raw material to accept lower prices. The reduced out-put allows the industrial products and services to be over priced. Each of these contributes to very severe exploitation of the have-nots and the labour.<sup>27</sup> Further the reduced out-put harms every one.

(ii) Massive exploitation caused by the dominance of interest causes disparity to grow. Gradually control over most of the resources passes to the capitalist conspirators and their agents that raises their exploitative potential. These exploiters use their economic

power to marginalize, subjugate and eliminate the righteous with intention to usurp total control over the resources. This multiplies their exploitative and oppressive potential.

(iii) The growing disparity of income and wealth and weakening of the hands of the righteous leads to massive fraud and corruption. Reduced purchasing power of the masses leads to misallocation of the resources that results in total denial of the claim of the have-nots over major parts of the resources of the community. The resulting state of helplessness of the masses compels them to tolerate unjust and inhuman treatment and leads to their subjugation before the exploiters. Thus the resources are utilised to satisfy wasteful and even immoral demands of the exploiters while the necessities and needs of the masses remain unsatisfied.

(iv) It is the most important cause of inflation that is more exploitative and oppressive than interest (to be discussed). Increase in the rate of interest (nominal) results in corresponding increase in the rate of inflation. Thus interest is responsible even for the exploitation and oppression caused by inflation.

(v) It kills the spirit of mutual help, nurtures selfishness, curtails availability of interest free loan, condemns man to the slavery of man and nations to the slavery of nations. It is antihuman and destroys morality. It responsible for growing fraud and corruption. All these add to the exploitation and oppression of the have-nots.

### **A mechanism of exploitation of the labour and the masses**

In the capitalist system the entrepreneurs are considered as the owners and this result in gross under statement of the profitability of the economic activities. For example if the actual profitability of the activity set up on capital borrowed on 12% interest is 13%, then due to adaptation of this fraudulent definition of ownership the profitability will be shown as just 1%. By thus showing the profitability to be much less than what it really is, the entrepreneurs are able to compel the labour to accept lower wages and similarly the suppliers of raw materials are also persuaded and compelled to accept lower prices. They also raise the price of their product on the ground of very poor profit margin.

Now suppose that the farmers also start summing up the cost of supply of land, clearly in that case the cost of production of the food grains will come to be much higher than prevailing prices of the food grains. We do not have any substitute for the food grains and we will have to buy these at whatever prices these sell. This will cause the cost of the food grains to multiply. Since people need food to sustain themselves they will be compelled to cut most other requirements so as to satisfy hunger. In such a case agricultural sector alone will flourish while all other sectors will tremble. Clearly, in such a scenario the farmers will earn much more than the so called specialists and farm labour will earn much higher wages than what the clerks will earn. This example clearly demonstrates how deduction of interest in form of cost of supply of capital help the owners derive undue benefits. Considering the manifest, fallakhy of the cost of capital argument of the economists, it is clear that all this is done only to exploit the masses and the labour.

Viewed in this perspective the cost push argument of the owners of the capitalist system is a total fraud because it is this interest (that is not due) that causes the cost (of production) to rise. It is to be noted that by adopting these fraudulent procedures (another mechanism is briefly discussed above) the masses and the labour are made to pay major part of interest that is mutually agreed between the entrepreneurs and the capitalist creditors. Clearly use of interest as a basis of sharing of profits between the creditors and the entrepreneurs is unjust, exploitative and oppressive.

Capitalism compels the entrepreneurs to raise the profitability of the economic activities under their control upto the shut-off profitability. Further it allows them to raise profitability to twice the prevailing interest rate as no investment can take place in activities having lesser profitability for their owners than twice the prevailing interest rate. Entrepreneurs can do this by increasing the price of their products or by reducing the labour wages or by causing the raw material prices to fall or by using some combination of these. Clearly all this involves exploitation of the labour and the masses and it has been caused due to prevalence of interest.

## **Inflation and Exploitation of have-nots**

Inflation is the worst tool of injustice, exploitation and oppression the humanity ever invented. Many and varied are the ways in that it harms the poor and the oppressed. In its absence the interest based capitalist system would have collapsed and therefore, it is responsible for the massive exploitation and oppression produced by interest. Additionally it harms the have-nots in many more ways. Some of the mechanisms are discussed below.

(i) It allows the developed and powerful economies to exploit the under developed and developing economies. While detailed mechanisms are to be discussed while dealing with international trade, some are discussed below:

Currencies of the developed economies have higher stability than the currencies of the under developed and the developing economies and command world wide acceptance and recognition. For example everyone likes to have U.S.A.'s dollars but no one not even Indians prefer to have Indian currency. This itself causes massive losses to the developing and the under developed economies. For example: let us assume that the U.S.A.'s dollars held by Indian government and the Indians amount to 10 billion. Clearly India and Indians can get these dollars only by selling off some goods or services or as a loan. In the former case Indians are deprived of the resources and in the latter case they have to pay interest on it. For simplicity let us assume that it is borrowed on interest and that the rate of interest is 5%.

Consider the cost of currency that we have borrowed (for U.S.A.). Clearly it is almost nil being nothing other than the cost of printing these currencies. Similarly consider what U.S.A. gains due to our holding these currencies. Clearly it equals 500 million dollars being the interest extracted every year. Clearly we can not pay it by printing dollars and therefore, we have to transfer \$ 500 worth of our scarce resources to U.S.A. (every year) as cost of holding these dollars. In absence of the depreciating currency there was no ques-

tion of any preference for Indians for the currency of U.S.A. Therefore, clearly this loss is directly due to prevalence of the depreciating currencies.

Further in the absence of inflation, the producers will not be able to exploit the masses and the labour and therefore, average profitability of the economic activities will be lower than the average profitability in the inflationary situation. Lower profitability of the economic activities implies lower interest rates as well as lower cost of technology transfer. The under developed and the developing economies buy capital as well as technology from the developed economies and therefore, this increases the rate of transfer of earnings and wealth of the masses of the under developed and developing countries to the developed countries.

Majority of the have-nots live in developing and under developed countries and exploitation of their economies amounts to their exploitation. It is really unfortunate that the so called champions of human right are the real exploiters of the have-nots. Is it not known to them that exploitation of a country directly leads to severe exploitation of its have-nots. Clearly they know it well and yet try to compel the under developed and the developing economies to accept highly exploitative terms of trade and commerce. Does not it expose their hypocrisy.

(ii) Prior to 1920-30 the prices as well as labour wages were more or less fixed and the masses actively participated in the market mechanism of price determination. Any effort by industry/commerce to increase the price of the products of the organised sector or to lower the labour wages or the prices of raw materials was strongly resisted by the have-nots. The massive response it used to generate prevented the owners of the organised sector from indulging in injustice and exploitation. Prevalence of depreciating paper currency has created a new situation where the prices keep increasing and masses fail to notice and react when the prices of the products and services of the organised sector are raised more than the increase in the prices in the products and services of the unorganised sector.

*Inflation eliminates the active participation of the have-nots in the mechanism of price determination by the market. That allows the owners of the activities in the organised sector to manipulate the prices to their advantage that results in the massive transfer of the earnings and the wealth of the have-nots to the rich.* Fall in the prices of the raw materials and primary articles with respect to the level of the prices of the industrial products that causes severe exploitation of the poor countries is an example.

(iii) It eats away small- small savings of the poor. Major part of the earnings of the poor is consumed by their immediate requirements and therefore, to meet their heavier expenses they are required to save over a long period of time. For example: they save over 15-20 years for owning a house, for 5 to 10 years for marriage, for 10-15 years for marriage of their children. Many have to save for 5 years or more for buying a refrigerator. Meanwhile inflation goes on eating away their savings. For example, if the average rate of inflation equals 15%, the true worth of the savings gets reduced to half every 5 years. That is if a person spends his/her savings 5 years after it was saved it buys half of the goods it would have bought when it was saved. Even if the person keeps it in the savings account and accepts the interest true worth of the savings continues to fall.<sup>28</sup>

Suppose Amr wants to buy a two bed room flat presently costing 6 lakhs and he has already saved 5 lakhs. Suppose working harder he saves 1 lakh this year. Then he will have 6 lakhs but he will not be able to buy the flat because the flat will then cost around 7 lakhs. Suppose that in the next year again he saves one lakh. Even then he will not be able to buy the flat because then the flat will be costing more than 8 lakhs. In the process he continues to save and inflation goes on eating away his savings.

Those who deal in interest may partially reduce the losses for example, either by buying the house by supplementing the savings with borrowings on interest that are freely available or by partially reducing the effect of depreciation by keeping the savings in the time deposit scheme. Finally the masses have to bear its burden (may refer back to the preceding note).

(iv) It reduces the availability of interest free loans to almost nil. This results in severe loss to the have-nots as they pay higher interest when they borrow but receive little or no interest when they lend.<sup>29</sup> If someone tries to avoid interest bearing loans, he/she is required to save over long period of time and then the inflation eats away most of their savings. Inflation has killed the spirit of mutual help and that aggravates the exploitative potential of the capitalist creditors.

(v) It eliminates the active participation of the have-nots in the process of price determination by the market. That allows the owners of the organised sector to manipulate prices to their advantage. The weakening of the economic status of the masses and strengthening the hands of the exploiters, further aggravates the effectiveness of this mechanism of exploitation.

(v) It assists the capitalist conspirators and their agents in divesting the masses of their control over the resources. Due to gross disparity the masses have lost the capacity to derive proper benefits from the resources owned by them. The profitability of the resources owned by the masses stands further reduced due to price differential created by inflation. Additionally the masses are not fully aware of the extent of depreciation and know currency to be worth more than what it is. Accordingly they consider the worth of the resources owned by them to be less than worth what they are. The rich are aware of the real worth of those resources. Thus when the poor are offered the right prices they wrongly feel that it is more and therefore, get allured into selling off the resources that are under their control. The value free advertising produces a highly alluring picture of the industrial products and services that tempts the masses to buy them. The temptation of higher prices and strong desire to own the products made alluring due to the value free advertising prompt the masses to sell off the resources under their control to buy those products.

(vii) Inflation is fraud and the worst tool of injustice, exploitation and oppression and it create massive fraud and corruption and makes it impossible to do justice.<sup>30</sup> It weakens the righteous and strengthens the grip of the capitalist conspirators and their agents. It supports the institutions based on injustice and fraud and tends to demolish the institutions based on equity and justice. Clearly all these are very harmful to the poor and the weak.

## Exploitation of masses

Inflation complicate the process of price determination by the market due to that masses are not able to actively participate in this process that result in massive exploitation. Additional causes that lead to increased level of exploitation are discussed below.

The industrial/ commercial activities with profitability less than minimum critical profitability are threatened with immediate shut down. This causes them to overprice their product and services. Further, pretending to check unemployment the government causes/ allows the money supply to increase that increases rate of inflation,. As soon as the money supply is relaxed the organised sector increases the cost of its product and services at correspondingly increase price level. The masses have to buy the industrial product and services at the increased prizes but can not increase the prize of their products (mainly raw materials) and services because:

(1) They are not well informed

(2) They are not organised

(3) Their requirements are of urgent and essential nature they have to buy what they have to and therefore they have to sell what they have. There is little or no choice for them because shopkeeper and traders tend to deny any increase in price of their product and services and they are thus compelled to sell their product and services at old price level. The seasonal variation in the price of the agricultural produce year after year confirms that this mechanism is not only operational but also very effective.

When the inflation continues for long the price of the product of the unorganised sector does also increase but there is large time lag and the price in organised sector including labour wages lag behind. Suppose that the prices of products of unorganised sector rise 8 fold, labour wage (average) rise 9 fold and the prices of the products of organised sector rise 10 fold. Masses will have to sell 25% more of their products to buy same quantity of the goods produced by the organised sector. Labour will spend higher proportion of their wage to buy products of the organised sector and will have to work more to buy same quantity of goods. This process leads to massive exploitation.

## Zakah

(Alms [Zakah] ...(is) ordained by Allah.) At-Tauba-60 Zakah is Allah's ordinance and an essential condition of faith. Its payment is obligatory. It is an essential element of worship, a known right and a definite tax.

Allah has repeatedly emphasised that we should establish regular prayers and spend from what He has provided for us. He directs us, "Establish prayers and give Zakah." (Al-Bakra-83)

32 verses of Quran refer to Zakah against 34 that refer to Salah. Thus, Quran-e-Hakim grants very high status to Zakah next only to Salah

It is an essential condition of Islamic brotherhood. Allah (S.W.T) has revealed

(Even so if they repent, establish regular prayers and pay Zakah; they are your brethren in faith.)At-Tauba-11

Ayaat number 18, 34, 35 and 71 of Surah At-Tauba, and 6 and 15 of Surah Al-Araf are very important in this regard. Ayat number 55 of Surah Al-Maidah holds that the real friends of a true Muslim are Allah, His prophet and the faithful who establish prayers and pay Zakah. Ayat number 40 and 41 of Surah Al-Hazz declare that Allah will surely help those who establish regular prayers, give Zakah, enjoin Haqq (right) and forbid wrong.

*Why and How - an Analysis*

Allah provides for the needs of all the creatures. Most of what is found on earth have been made useful to man and man have been endowed with the ability to improve the utility to the most. Allah (S.W.T.) declares,

“It is He who have created for you all things that are on earth.”  
(Al-Bakra - 29) And

“God doth enlarge provisions without measure to whom He pleases  
and grants the sustenance by strict measure (to whom He wills)”  
(Ar-Raad-26)

These revelations make it clear that the capacity to grow and the capacity of being converted into more useful goods has been created by our lord (Allah) to provide for our needs. Further, He has neither created nor ordained equality in respect of worldly provisions (regarding income and wealth). And yet, He has ordained His Prophet (P.B.U.H.) to collect Zakah. Quran-e-Hakim puts highest emphasis on Salah and Zakah and has considered both together on many occasions and this establishes the high status Allah Subhanahu Wa Tala grants to Zakah. It is our duty to Allah that we worship Him alone and it is our duty to our fellow brethren to pay Zakah to those deserving and to spend it in Fi Sabeelillah (the cause of Allah).

Allah (S.W.T.) has revealed,

“But for those whose faith is assured, who can give better  
Hukm than Allah.” (Al-Maidah-50)

Hence, the payment of Zakah is for our own good. ‘Zakah’ means to grow and to purify. It purifies ourselves as well as our wealth and causes the wealth to grow. Allah Subhanahu wa Tala has warned us,

*“Spend in the cause of Allah and let not your own hands ruin  
yourself.”(Al-Bakrah-195)*

*This gives rise to the following questions:*

*(a) Why are we directed to pay Zakah?;*

*(b) How does it benefit us? And,*

*(c) How does the nonpayment of Zakah cause our ruin?*

These questions can be replied on the basis of Islam (Quran and Sunnah) as well as on the basis of rational arguments based on our observations. Firstly we shall present **Islamic arguments** and then the latter.

**(a) The first question may be replied on the basis of the following;**

‘In their wealth there is due share for the beggars and the deprived’  
(Az-Zariat-19)

‘So give what is due to the kindred, the needy and the wayfarer.’  
(Bani Israel- 26)

The inference is that the Zakah is obligatory because it is the right of those entitled to receive it. Thus the poor and the needy are the rightful owners of what becomes due as Zakah. Due to weakness of faith and lack of gratitude one may ask,

“Shall we feed those whom, if Allah had so willed fed Himself”  
(Ya Seen-47)

The answer to this question lies in the scheme of creation itself. Not only that Allah has put some persons in control over what belongs to others but even He put some in command over many others. Through innumerable signs that He has spread throughout the creation, through His prophets’ (P.B.U.H.) and Revelations Allah informs us regarding the truth. Those who are grateful to Him, use the resources under their control to establish justice. Those who are ignorant use these to satisfy their own desires and indulge in injustice, exploitation and oppression and thus provide proof against them. As discussed, refusal to pay Zakah is equivalent of seeking the right to kill others that is a crime manifest (*Rf Fn.-.*) It is a great sin that leads to our ruin. Had the disparity not been created and had we not been granted capacity to help and harm others,<sup>31</sup> there would not have been any good or bad. Therefore, not only the punishment and reward but our creation itself would have been meaningless. Clearly, the aforesaid question arises out of our ignorance and ungratefulness, it is why Allah has declared that those who ask the said question are in

*‘Nothing but manifest error’ (Ya Seen-47)*

**(b) Regarding the second question** Allah (S.W.T.) has revealed,

*“Paying Zakah seeking the Countenance of Allah are the people who earn growth of their wealth.” (Ar-Room-39)*

*‘Allah causes charities to grow.’ (Al-Bakrah-276)*

Thus one of the reasons is that Zakah makes the wealth grow. Allah has so designed the laws of nature that Zakah maximises growth.

Further payment of Zakah purifies and sanctifies people as well as their wealth. *Allah (S.W.T.) ordains His prophet (P.B.U.H.),*

*“Of their wealth take Alms that so you mightest purify and sanctify them.” (At-Taubah-103)*

(c) **Regarding the third question** it is to be noted that those who do not pay Zakah lose Allah's grace and protection. In addition to the serious consequences that they face in the hereafter, they cause their ruin in this world as well. In case of Muslims staying in Darul Islam they are forced to pay Zakah and in addition one fourth of their wealth should be confiscated.<sup>32</sup> As regard the people staying outside the limits of Darul Islam, their non payment of Zakah causes disparity to grow that reduces purchasing power that causes severe economic disbalance, misallocation of resources as well as unemployment. This produces immorality and lawlessness. These things finally lead to social moral, political as well as economic degradation. That no one can escape. Prophet (P.B.U.H.) said,

*‘Allah causes famine to befall on community that does not pay Zakah.’ (Al-Tabrani)*

*‘The community that does not pay Zakah is deprived of rain and if there were no cattle, there would be no rains.’ (Behqui)*

*‘Inclusion of Zakah in a holding (Mal), spoils it all.’ (Albazar, Behqui)*

### **Rational Argument (unguided)**

The rich should not be allowed to withhold capital unless they compensate for the loss the have-nots suffer as a consequence of the rich withholding capital. Refusal of Zakah to the poor is equivalent of refusing them right to live with dignity. Considering the fact that the right to life is definitely the most fundamental right of man, no civilised people can deny it. Thus, the right of the poor to receive Zakah being equivalent to right to life is also the most fundamental right. A society that denies the fundamental rights to its people is law less society and lawlessness is enough to ruin any people.

*All power vests in Allah and all that exists is bound to obey His command, willingly or unwillingly (QIII -83). His will can not be defied. What he says is the truth as He says, “Be and it is”-(Yaseen-82).*

### **What is chargeable to Zakah**

The prophet of Allah charged Zakah on the following items:

- (1) The cattle, which grazed on public grazing, ground.
- (2) Cash which then consisted of gold and silver.
- (3) Fruits and cereals, mainly those used as food.
- (4) Buried wealth/treasures
- (5) Mercantile goods.

In respect of cattle, gold, silver and merchandise, Zakah is charged on completion of year and once every year. In respect of cattle the Nisab for camels is 5 camels for goat 40 goats and for cow 30 cows. However, the charge of Zakah is somewhat less than 2.5% per year. Nisab for gold is 20 Dinar (85 gms of gold) and for silver 200 Dirham (595 gms of silver). It is remarkable that during Ahde Risalat the worth of these Nisab specially that of camel, goat, gold and silver were more or less the same.

### **Collection and distribution of Zakah**

(Zakah is for the poor and the needy and those employed to administer (the funds), for those whose hearts have been recently reconciled (to truth), for those in bondage, debted once and for the cause of Allah and for the wayfarer. Thus, it is ordained by Allah.) At-Tauba-60

Thus, Allah has Himself specified the groups of people entitled to receive Zakah. Muslims paying Zakah individually can not satisfy this mandatory command of Allah properly. Because, it requires that the Zakah funds should be utilised on the aforesaid eight heads (in due proportion). Therefore, the Zakah funds should be collected and distributed through some collective mechanism. Allah hath ordained prophet (P.B.U.H.) to collect Zakah. Allah has ordained that Aamleen [officer and staff entrusted with the work of collection and distribution of Zakah] have a share therein, i.e., Amleen are paid from the collections of Zakah. Clearly, Allah hath directed His prophet (P.B.U.H.) to collect and distribute Zakah with the help of Amleen (to be appointed by him). Therefore, when prophet of Allah was no more (present) the responsibility fell on his Khulfae (the heads of Islamic state after him). Accordingly when Darul Islam got divided in many small-small countries, the responsibility will automatically pass to the head of these states who are from among the Muslims. While deputising Moaz (may Allah be pleased to him) to Yamen prophet (P.B.U.H.) ordained him to collect Zakah from their rich and to distribute it among their poor. This confirms that the Imam (leader) of the community of the Muslims and his representatives are required to collect Zakah and distribute it among the poor.

Regarding the righteous who will inherit paradise (Jannat) Allah (S.W.T.) reveals, 'They are those who are active in paying Zakah.' (QXXIII-4)

Payment of Zakah includes its assessment and distribution in accordance with the provisions of Al-Shariah. Therefore, in case the country is secular or the ruler do not discharge this duty, the Muslim society must ensure that this collection and distribution of Zakah continues without any hindrance. Clearly this provision can not be complied with individually, therefore, where the Ummah is divided in two or more groups the Amir (leader) of each group must discharge this function in respect of the members of his/her group.

Payment of Zakah is obligatory on Sahib-e-Nisab.<sup>33</sup> Establishment of proper collective mechanism for collection and distribution of Zakah is the responsibility of the head of the Islamic State. Elsewhere, it is the joint responsibility of the Ummah. Most of the efforts that are being made in this direction have met with little success. *One of the most important causes of this failure of the Ummah to produce such a mechanism lies in that most of those trying to set up the mechanism are themselves seeker of the Zakah funds.* With each group trying to maximise collection of Zakah to use it for the purpose it considers

important, indirectly each weakens the effort of the other to establish the required mechanism. These groups often use Zakah for questionable purpose while denying it for the causes that are more important.

Thus, there is need to establish a mechanism of collection and distribution of Zakah by a representative group that does not consume the Zakah funds. It will distribute the Zakah collections among the deserving individuals as well as associations/institutions. Considering that it does not have the backing of the government it has to be more persuasive. It may allow people to hand over up to one third of their contribution to whom they want. It may also allow them to inform it where they want another one third to be paid. Thus, after paying the Zakah to the Zakah collecting institution, people will be free to get back one third that they will hand over to the associations/institutions or individual of their preference. Similarly, another one third of their contribution will go where they want. The institution will try its best to educate the people so that there is no violation of any provision of the divine law in this regard. However, its responsibility of ensuring that the Zakah funds are utilised strictly as per the divine law shall be limited to the part of collections where it is given discretion. *While it is obligatory upon us to establish the collective mechanism, even if such a mechanism does not exist, a Muslim has to pay Zakah and ensure that it reaches to those to whom it is due.*

## The Problem

Allah's grace have enabled us to produce many new products and we are extracting from earth many minerals which were not extracted then. Further, certain items were considered worthless due to their free availability or because they were not useful but now they have found many new uses and are considered valuable and therefore, it is not possible to hold that all these items shall be exempt from Zakah because, the prophet have not charged them to Zakah. Because, the general principle laid down by the Quran-e-Hakim and the Sunnah of the prophet do point towards these being chargeable to Zakah and there is no prohibition against inclusion of new items for the charge of Zakah. This has created a large number of new questions for determination. There is some disagreement among various schools of thought. Since Ahd-e-Risalat price of gold has increased about 9 times more than price of silver. This has further complicated the problem. Unfortunately there has been wide difference of opinion among the jurists in this regard.

Through his book, Fiqh-uz-Zakah Prof. Kirzabi (may Allah reward him) has presented a beautiful analysis of the subject. Most of relevant information available from various Islamic sources have been considered and many of the complex problem satisfactorily resolved. Yet I am of the view that some very fundamental aspects need reconsideration. The resolution of this problem is basically the responsibility of the Ulema, but, Ummah as a whole is responsible for anything that ought to have been done but has not been done. Under these conditions I can only pray to Allah to help us to resolve the problem.

**Each period has its specific problems that are fully understood only by the people of that period. Accordingly, only the people of that period have the capacity to tackle such problems.** Islam has been perfected and Quran-e-Hakim contains essential guidelines required to solve any problem that arises at any occasion. However, to be able to solve the

problems, we will have to make ourselves fully aware of the problem as well as the divine guidance. Use of scientific tools of analysis can help us to arrive at a workable consensus regarding the charge of Zakah and its Nisab regarding the new products and the services.

The resolution of this problem will require us to find out the Hikmah underlying the exemption or charge of Zakah on wealth and earnings as ordained by prophet (P.B.U.H.). Considering the fact that the Zakah is an Ibadah (worship) as well, it will not be possible to rely on Hikmah alone, however, the Hikmah can be used to arrive at the correct analogy. Allah (S.W.T.) has declared,

‘Allah has revealed the book in truth and the Mizan (balance).’ (As-Shuraa)

Right analogy is Mizan and therefore, it can be relied upon. To start with, let us consider the following verses:

“Eat of their fruits in their season but render the due (give Zakah) on the day that the harvest is gathered”(Al-Anam-141)

“O ye who believe, Give of the goods things which ye have earned<sup>34</sup> and of the fruits of the earth which we have produced” (Al Bakrah-267)

Thus what the earth produces, what is extracted from earth and what the men earn is chargeable to Zakah. As regards cash earnings. It is one of the superior goods and therefore, it will be subject to charge of Zakah.

“And there are those who hoard gold and silver and spend not in the way of Allah. Announce unto them a most grievous chastisement” (Q IX-34)

Allah ordained His prophet (P.B.U.H.),

“Of their wealth collect Zakah.” (At-Tauba-102)

“...Obey Allah and His prophet...”(An-Nisaa- )

These revelations make it clear that Zakah is chargeable on earnings including agricultural produce and on the hoarding of gold and silver. Hadith Sahih states, “ There is no Sadqah (Zakah is not chargeable) on Muslims in respect of their horses and slaves”

This Hadith confirms beyond doubt that Zakah is not chargeable on the material and utilities procured for use or consumption. Allah commands, “They ask thee (prophet) how much they are to spend,

say, what is beyond your needs.”(Al-Bakrah-219)

This command is not specific to Zakah but it lays down a general principle. It can be safely inferred that Zakah is chargeable only on such belongings, which are in excess of needs and only such people who own more than what is essential to meet their necessities are required to pay Zakah. This is further confirmed by Ahadith. A Hadith from Bukhari Sharief reads, “Sadqah (Zakah) is obligatory only in state of Ghana (affluence)” Another Hadith states that Zakah shall be collected from the rich and returned to the poor.

Allah declares that Sadquat cause wealth to grow i.e. Zakah brings economic prosperity and that those who pay Zakah are the people who cause their wealth to grow. These revelations make it very clear that the quantum of Zakah on a given item shall not be higher than the average rate of growth (for the Ummah) in respect of that item. The second statement further confirms that Zakah is part of the increase in wealth because it is only then that payment of Zakah will cause the wealth of those paying Zakah to grow. Allah (S.W.T.) has revealed,

“Those who pay Zakah are those who cause their wealth to grow.” (Ar -Room-30)

Viewed superficially, this position seems to be in conflict with certain established facts, which require elaboration. For example: when those hoarding gold or silver pay Zakah it will reduce their wealth. Similarly, the charge of Zakah on cash held up for a year or on mercantile goods that were not traded throughout the year are the provisions that will seem to lower the wealth of those who pay Zakah. In practice these provisions cause the owners of capital to prefer to invest their resources in really productive activities as in that case the resources are exempt from charge of Zakah (to be discussed). This preferential investment in the productive economic activities maximises the economic growth (*Rf. Pg.-*  
)

It is to be noted that there is no difference between the quantum of Zakah on a hoarding of gold or silver or mercantile goods of the same worth. The revelation, “So that circulation of wealth it is not confined to a few wealthy among you,”(Al-Hasr-7) shows that Al-Shariah stands for a just and equitable distribution of income and wealth and do not allow the disparity to grow unchecked. Charge of Zakah in these cases, exemption (from charge of Zakah) for productive investment and banning of interest are the tools that Al-Shariah uses to achieve this objective. Thus, these provisions constitute the policy instruments of Al-Shariah to establish a just and equitable economic system among the righteous. Clearly, charge of Zakah on these classes of goods will cause wealth to grow because the just and equitable distribution of income and wealth multiplies out put and employment that accelerates economic growth. Zakah raises the income of the poor who have higher propensity to consume that raises consumption. That raises profitability and therefore, investment.

The economic system that allows the rich to acquire and own resources<sup>35</sup> but do not enforce Zakah will be based on interest. That causes severe economic imbalance, produces trade cycles and leads to massive misallocation of resources as well as unemployment. Thus, the alternative systems impede economic growth.

Clearly, even in these cases, the charge of Zakah produces economic growth, purifies and sanctifies the Zakah-payers and ensures that the poor get their due. Further, it motivates the Sahib-e-Mal to invest his/her capital that will cause it to grow. Thus, it can be easily inferred that **Zakah is an Islamic mechanism that produces economic growth, purifies and sanctifies people and their earnings and wealth, produces a just and equitable economic order by providing the poor what is their due and binds the Muslims in the Islamic brotherhood.**

Through his in depth study Prof. Kirzabi (Refer to his work 'Fikh -uz-Zakah') concludes that Zakah is either charged on capital or it is charged on income. It may be noted that it is fully consistent with the divine revelation as well as the Ahadith that we have considered. When we analyse these sources with intention to find out the cases where income is charged; where wealth is charged and what is exempted from charge of Zakah, we are lead to the following conclusions (to be discussed):

*(i) Zakah is not charged unless Nisab is satisfied.*

*(ii) The wealth or property on which Zakah is payable is charged to Zakah only once in a year.*

*(iii) The wealth or property that get employed in some productive function within a year, is not charged to Zakah.*

*(iv) In case of earnings including agricultural as well as industrial production, Zakah become due as soon as proper accounting could be done, however, it may be collected only once a year.*

*(v) A utility owned by the user is exempt from the charge of Zakah, however, the income derived from it is charged to Zakah.*

If a person holds such wealth or earns such income that is chargeable to Zakah, the Zakah is charged only if the wealth or the income exceeds the Nisab. Thus, Nisab represent the minimum quantity of specified type of wealth or income; ownership/earning or production whereof causes the owner to be charged to Zakah, provided further that in case of ownership of wealth, Zakah is charged only after the prescribed time (one year) is completed.

Nisab for gold is 20 Dinar (85 gms of gold) and Zakah is charged once every year. Nisab for silver is 200 Dirham (595 gms of silver) and Zakah is charged once every year. Nisab for the animals that graze on public grazing ground (Saima animals) is; 40 for goats and 5 for camels) and Zakah is charged once every year. During Ahde Risalat the market worth of these Nisabs nearly equaled one other.

Nisab for wheat, rice as well as dates is 5 Wasq and it is collected when the proceeds of the crop are gathered during the harvesting season. The market worth of the Nisab of the agricultural produce differ widely and even during Ahde Risalat these differed from the Nisab for gold and silver. Agricultural production, industrial production and earned income differs from wealth that is charged to Zakah such as gold, silver and merchandise and it seems that industrial production and income should be charged to Zakah on the pattern of the agricultural produce (to be discussed).

### **Nisab for merchandise:**

Nisab for merchandise is 20 Dinar or 200 Dirham.<sup>36</sup> During Ahde Risalat these were nearly equal in worth, however, now 20 Dinar is worth about 9 times 200 Dirham. This has given rise to severe conflict among the Ummah. Those who prefer to adopt 200 Dirham as

Nisab argue that it is in the interest of the poor. However, those who favor 20 Dinar argue that Zakah is to be charged on affluent (Ghani) and 200 Dinar (595 gms of silver) is too small to meet the necessities and needs of an average family.

Prof. Kirzabi holds that 20 Dinar should be adopted as the Nisab for merchandise. His argument is that the market worth of other Nisabs (e.g., 40 goats and 5 camels) more or less equals the worth of 20 Dinar and the general increase in prices have followed the trend of the increase in the gold prices.<sup>37</sup> While generally Nisab represent quantity of the goods that are charged to Zakah, in case of merchandise, it is their worth that have been relied upon. Scholars who hold the view that 200 Dirham is the Nisab argue that all other goods including gold should be converted into equivalent amount (in terms of market worth) of silver to determine whether the Nisab is complete. Scholars who hold the view that 20 Dinar is the Nisab argue that all other goods including silver should be converted into equivalent amount (in terms of market worth) of gold to determine whether the Nisab is complete. Gold prices have followed the general trend in the increase in prices while the prices of silver have lagged for behind. It strengthens the arguments in favour of adaptation of 20 Dinar as the Nisab for merchandise. However, the fact that Nisab for agricultural produce do not consider their market worth<sup>38</sup> and that the Nisab is independent of the number of the dependants of the Sahib-e- Nisab tends to demolish this argument. Similarly, the fact that the Zakah is a right over rides the contention that 200 Dirham should be adopted as Nisab because it better serves the interest of the poor. Because, the determination of rights do not admit of any favours. This shows that the material available to our jurists and the scholars is not enough to pronounce a clear verdict.

Now let us consider the cases of Baker, Zaid and Umru. Baker owned 85 gm of gold, Zaid owned 595 gms of silver and Umru owned 42½ gm of gold and 297½gm of silver and each of them held the gold or silver they owned throughout the year. While during Ahde Risalat people owning these amounts of gold and or silver were equally rich. Now the holding of Baker is nearly worth twice the holding of Umru and worth nearly 8 times the holding of Zaid. According to the practice of Ahde Risalat the Nisab is complete in all these cases and therefore, it must be held that the Nisab is complete in all the three cases. It must therefore, be held that the market worth alone can not determine Nisab. There is nothing that can simultaneously satisfy the three cases and yet it is best to assume that the Nisab is complete in all these cases.<sup>39</sup> Clearly, both the Nisabs are equally important and equally valid.<sup>40</sup> The only way out is to measure gold in terms of the Nisab of gold, silver in terms of the Nisab of silver and to add up the holding of the two metals to find out whether the Nisab is complete.<sup>41</sup> For example; suppose, A holds 11¼gm of gold and 446¼gm of silver. We see that A is holding a quarter of the Nisab of gold and three quarters of the Nisab of silver. The total of these Nisabs completes the Nisab and therefore, it will be held that Nisab is complete.

Cash being a superior good is charged to Zakah. Therefore, we will have to find out the Nisab for cash. There is vast difference between the amount of cash that 20 Dinar (85 gm of gold) and 200 Dirham (595 gm of silver) are worth. However, as discussed above both are equally important and useful. Further, in case of merchandise the market worth has been relied upon (by Al-Shariah).<sup>42</sup> The problem arose due to relative change of the prices

of the goods with respect to one other, however, we have been provided with two standards and what really matters is the change with respect to these two. Since we have only two standards best course is to give equal importance to both. Accordingly we may hold that Nisab for cash equals the sum of the worth of  $42\frac{1}{2}$  gm of gold and  $297\frac{1}{2}$  gm of silver.<sup>43</sup> Now suppose **B** is holding  $11\frac{1}{4}$  gm of gold and  $148\frac{3}{4}$  gm of silver as well as cash<sup>44</sup>. The holding of gold in terms of the Nisab for gold is a quarter of Nisab and the holding of silver in terms of the Nisab for silver is a quarter of Nisab. The sum of these is half the Nisab. Now it is to be seen whether the worth of cash equals half the Nisab for cash. In case it is equal to or is more than half the Nisab, it will be held that the Nisab is complete and Zakah will be charged. If it is less than half the Nisab it will be held that the Nisab is incomplete and Zakah will not be charged.<sup>45</sup>

## Kanz Mal

The utilization of resources produces goods that fulfill the human requirements. Running capital is required to put the resources to their proper use. Thus, those who withhold capital harm human interest, generally. Islam severely condemns such withholding of capital. Allah (S.W.T.) has revealed,

*'By no means! It will be the blazing fire, inviting all such as....*

*[And collect (wealth) and hide it (from use)]*

Thus, those who hoard wealth and prevent it from use, are condemned.

Allah (S.W.T.) has revealed that all that He has created on earth is for all of us. It is the productive investment that leads to growth. Similarly the consumption or utilization of consumption goods maintain and add to the productive capacity of the consumer. However, no real gain is obtained from what is withheld from use. Accordingly preventing capital as well as goods from use harms the human interest generally. Hoarding of gold and silver that formed the cash is most severely condemned. Now that paper currencies are being used as cash, similar strictures may apply to these. The wealth that is hoarded and thus prevented from being used/circulated is called Kanz.

The wealth so withheld as well as its owner become impure and sinful. In case Zakah is paid on such wealth, it (Zakah) purifies and sanctifies such wealth as well as its owner. The payment of Zakah (that is distributed among the poor) compensates the loss suffered by the poor (in form of unemployment and shortage of supply that it creates). The payment of Zakah year after year will eat away such wealth. Investment provides the only alternative to those who want to prevent this loss. Thus, in this case the main function of Zakah is that of a purifier, however, in practice the charge of Zakah motivates the owners to invest the hoarded wealth and even in this case the growth aspect plays a very important role.

It has been clearly recognised that either income/out-put or the wealth is charged to Zakah. However, there seem to be some confusion as to where the income is charged to Zakah and where the capital itself is charged to Zakah. As discussed, Zakah is not charge-

able on the material and utilities procured for use or consumption and Zakah is part of the increase in wealth.

Practices of Ahde Risalat clearly show that capital was charged to Zakah only if it was prevented from use. Not only that the productively employed capital was not charged to Zakah but even the goods for use (utilities) were not charged to Zakah. For example: cash is charged to Zakah but the land purchased out of it is exempt from charge of Zakah. Similarly a car purchased for personal use is exempt from charge of Zakah. It is exempt from charge of Zakah even if it were procured to be run as a taxi (the income earned will be charged to Zakah).

Viewed superficially, this position seems to be in conflict with the fact that Zakah is basically a charge on wealth. The exemption from charge of Zakah in respect of land, the camels used for tilling, slaves and similar other cases, clearly reveals that productive investment is exempt from Zakah. Out-put that is obtained from the productive investment is charged to Zakah.

The divine revelations regarding charge of Zakah show that Zakah is chargeable on income as well as wealth. However, the practice of Ahde Risalat (discussed above) shows that only some specific type of wealth was charged to Zakah. An insight into this exemption in case of productive investment shows that the productive investment itself is the cause of exemption. The capacity to grow and the conversion into more useful goods has been created by our lord, cherisher and sustainer Allah to provide for our needs. Allah (S.W.T.) has taken upon Himself the responsibility for providing for the needs of all His creatures. Productive investment produces growth that assists in the fulfillment of the said needs while withholding capital and preventing it from use retards growth and production (*Rf. Pg,-*) This explains, why the productive investment should be exempt from charge of Zakah.

In case of Saima animals (animals that graze in the public grazing ground) Zakah is charged on whole of the cattle stock and this seems to be in conflict with the position adopted by us. However, a deeper insight into this question reveals that in this case it is not possible to assess the growth or out-put correctly.<sup>46</sup> Therefore, we would have been placed under great difficulty if we were to pay Zakah on the gain that accrues. Allah is ever merciful to His servants. He prefers ease for us. Thus, it a case of mercy from Him that Zakah is charged on whole of cattle stock, but on a reduced rate. We know that the rate of charge of Zakah on agricultural produce is 5% or 10% depending upon whether the crop have been obtained using natural sources of water alone or artificial means of irrigation have been used.. Rate of charge of Zakah on buried wealth (treasures) is 20%. This shows that the rate of charge of Zakah on Saima animals should be around 15% (to be discussed). However, the rate of charge of Zakah on Saima animals is around 2.5% only. If we assume that the average rate of growth of cattle wealth is one sixth per year, then 15% of this growth comes to 2.5%. This shows that although the Zakah is charged on whole of the cattle wealth its rate have been so reduced that it corresponds to normal rate of Zakah on the growth part of it. It is to be noted that normally wealth is charged to Zakah only when a year is completed but even the youngest cattle is counted. This also shows that Zakah is actually charged on the

growth and it is only due to difficulty in assessing growth that we are directed to pay Zakah on whole of the cattle wealth and not on the growth part alone. Thus it a case of preference for ease and not that of an exception.

It follows therefore, that productive investment is exempt from charge of Zakah and income derived from it will be charged to Zakah. Non-productive investment will be charged to Zakah. The inventories of a productive unit that are not for use as a means of production will be charged to Zakah. In case of non-productive units such as trading companies shops and building including such machinery that the company uses to assist it in its trade will be exempt from charge of Zakah.

## **Zakah - The Propellant of the Islamic System**

*'Allah will deprive usury of all blessing but cause charities to grow.'* (Q II-276)

Be it this world or the hereafter, the command of Allah holds every where. Charities cause our wealth to grow and interest causes its ruin. The roots of the basic cause of most of the economic, social as well as political evils lie in the dominance of interest. Divine law best serves the interest of the believers and it is really unfortunate that some Muslims hold interest to be essential. The reality is that willingly or unwillingly all that exist is bound to obey the command of their creator, cherisher and sustainer Allah (Q. III-83). Allah (S.W.T.) has revealed, 'Allah will deprive usury of all blessing but cause charities to grow.' (Q II-276)

Do we really understand it? The strength of the western economies and the weakness of the economies of the Muslim countries seem to be heavily taxing the belief of many. The majority of the economists' hold that despite its shortcoming interest based capitalist system is the best practical economic system. Even Muslim economists hold that permissible or not, interest is essential. They are well aware of the problems created by the dominance of interest but say that if the interest is abolished the creditors will not provide capital to the entrepreneurs and it will lead to economic collapse that will be more harmful than the massive problems being encountered. It only due to our misunderstanding regarding the aforesaid divine revelation that we have not been able to inform the world that enforcement of Zakah is the solution.

The problem arises mainly due to our misunderstanding regarding the interest as well as the provisions that govern the charge of Zakah and its Nisab. Our ability to see this truth will Insha Allah solve most of our problems and our ability to convince the world regarding this truth will solve most of the economic problems of the world.

Allah (S.W.T.) has endowed most of that exist on earth with the ability to grow or of being converted into more useful goods. However, to produce the required condition for the desired growth or change the people have to create required environment or conditions. The system of economy must be able to motivate the people to strive to produce the desired growth. The economy propelled by interest is characterised by injustice, exploitation, fraud, corruption, unemployment, and gross disparity of income and wealth and trade cycles. The economy propelled by Zakah is characterised by justice, full employment, equitable distribution of income and wealth, and human Falah (including sustained and balanced eco-

conomic growth). In the Islamic system charge of Zakah motivates the owners of capital to get the capital invested just as the bribe called interest motivates the capitalist creditors to provide their capital to the entrepreneurs in the capitalist system. Thus, Zakah has the same place in the Islamic economic system as the interest has in the capitalist economic system. The fact that Allah (S.W.T.) has compared the two in the same verse confirms it.

Islamic philosophy of life as well as its economic system is in perfect harmony with the nature. It does not allow anything harmful to human welfare to progress and do not protect anything harmful from getting extinct. Banning of interest, enforcement of Zakah and distributive laws of inheritance prevents excessive concentration of wealth. Zakah ensures satisfaction of necessities and needs of the have-nots. Right to own resources ensures availability of sufficient motivating force to cause sufficient number of people to strive to achieve excellence. Availability of Qard Hasan ensures mutual help and co-operation.

Interest motivates capitalist creditors to invest. Therefore, if interest is banned, capitalist creditors will tend to hold cash. Once Zakah is enforced capital withheld will attract Zakah at the rate of 2.5% per annum. Thus, withholding capital will become a costly affair. Accordingly, *enforcement of Zakah will ensure that investment will not fall despite banning of interest.* Banning of interest will remove the major cause that creates the inflationary pressure. Thus simultaneous banning of interest and enforcement of Zakah is required. Once this is done, the reasons that really tend to force the governments to increase money supply (that finally leads to inflation) will not exist and therefore, the problem of inflation will not persist.

Capitalism is based on interest that leads to massive concentration of income and wealth. Profit maximising firms restrict employment to the level that satisfied the condition of equality of marginal wage with the marginal revenue.<sup>47</sup> That leads to massive unemployment and exploitation of labour. Wages earned by the labour normally constitute the biggest benefit that the economy derives from economic activities. Therefore, the criterion that determines whether an activity is set up or shut-off must not neglect wages earned by the labour.

The interest of the community as well as the nation demand that we ought to adopt a mechanism that ensures that economic benefits in form of employment gets due consideration. Zakah provides that mechanism because, the charge of Zakah on capital withheld from use causes the owners of capital to continue with the economic activity even if there is some loss not exceeding 2.5%. Therefore, enforcement of Zakah is essential to serve the nation while the enforcement of interest is a purely anti-national activity. The Islamic system that is propelled by Zakah produces equitable distribution of income and wealth while capitalism that is driven by interest produces gross disparity of income and wealth. Equitable distribution of income a wealth allows those who fail to get employed by profit maximising firms to employ them. That multiplies the opportunities of employment and maximises out put.<sup>48</sup>

The means of production are exempt from charge of Zakah and yet, Zakah is charged on commercial investment. Thus, *there is clear preference for the productive*

*investment as against commercial investment.* It is a very important characteristic of the Islamic system as Islam uses this provision to maximise out-put and employment. Most of the scholars have disregarded it. *This has resulted in wrong interpretation of the divine laws in regard to charge of Zakah on some investments.* For example: a person holding shares of a company engaged in producing goods in effect invests his/her funds in a productive function. Normally, not more than 20% of assets of such companies is chargeable to Zakah.<sup>49</sup> However, normally no distinction is made between the shares of the productive and the commercial companies. That shows that the practices of the Ummah are not conforming to the divine law. As a matter of fact many of the problems that the Ummah is facing in this regard are due to negligence in considering this growth aspect of Zakah. Islamic system ought to give it the importance it deserves.

Productive investment is exempt from the charge of Zakah that maximises out put. Charge of Zakah on mercantile goods ensures that commercial sector will remain efficient and will try to sell goods as quickly as possible (by keeping profit margins low). This system is essentially free from interest, inflation and exploitation. Banning of interest, enforcement of Zakah, availability of Qard Hasan and dominance of the righteous ensures that the rich are not able to exploit the poor. Provision of Al-Shariah according to that loss if any has to be born solely by the Sahib-e-Mal ensures that there is no compulsion on the entrepreneurs to indulge in acts that cause exploitation. Thus, having ensured that there will not be injustice against the poor, it grants near total control to the rich in respect of the management of the resources under their control that ensures that the rich are free to cause their wealth to grow. Having made it obligatory on every able bodied person to work to earn to satisfy their necessities and needs as well as the necessities and needs of their dependants it ensures that availability of Zakah will not restrict the availability of labour at reasonable wages.

Clearly Zakah propels the Islamic economy. *It is a mechanism that purifies and sanctifies people and their earnings and wealth, produces a just and equitable economic order by providing the poor what is their due, binds the Muslims in the Islamic brotherhood and produces and sustains optimum economic growth.*

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