

ELIMINATION OF POVERTY: CHALLENGES AND ISLAMIC STRATEGIES*

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Abstract

Poverty is a complex phenomenon, a consequence of lack of growth and inequality. Effective policies require technical and empirical understanding of poverty that is combined with efficient institutions and a supportive system of social values. The paper focuses on four basic tenants of the Islamic ethical system and treat the Islamic ethos as an ideal, through which socioeconomic policies dealing with poverty elimination are assessed. Islam views society as a unified entity in which individual freedom and human dignity is supreme although subject to the axiom of responsibility. These ethical tenants indicate that policies should not develop 'dependency,' amoral activities, or lead to the institutionalization of poverty. Policies based on transfers that do not lift the poor from their dependency status should be avoided except in cases where such shift is not feasible. Based on the conceptual and empirical evidence, the paper concludes that Islamic ethics support a poverty-alleviation strategy based on the principle of promoting economic growth with productive equity.

Introduction

Poverty is a complex phenomenon. It persisted and has been of concern, in varying degrees to societies and communities around the world since recorded history, regardless of resource endowment, the stage of development, level of technology, social structure or culture. However, societal approaches to poverty alleviation varied significantly from indifference to active intervention, from reliance on private or collective strategies, and between distribution and growth strategies, depending on the efficacy of existing socioeconomic institutions and the prevailing social values. Throughout history, individual and social values, especially where egalitarian ideology ranks high, have been important determinants of how individuals and society view poverty as an issue that requires attention at the level of civil society. In the case of Islam as an ethical system, it is an accepted premise that policy decisions in an Islamic society must pass through an Islamic moral filter. The Islamic ethical system provides for more than a “Bill of Rights.” Its system defines a “Bill of Rights and Obligations” that guides the behavior of government and the governed. However, we agree with Khurshid Ahmad’s recent assessment that the present status of Islamic countries is “still under the shadow of the Western system and, as such, it is doubtful how ‘representative’ of the Islamic ethos its current behavior can be” (Ahmad, 1994, p. xiv). To examine the performance of Islamic countries and conclude whether they adhere to the ethical principles of Islam requires much more knowledge about the performance of these countries and how that performance adheres to the Islamic ethical and legal systems, a task beyond the capacity of the present author.

Our approach in the present paper is to focus on Islam as a system of ethics and treat the Islamic ethos as an ideal, through which socioeconomic policies dealing with poverty reduction/prevention are assessed. We find the axiomatic approach, developed by Naqvi (1994) and applied in an earlier analysis of Islam, society and economic policy (Sirageldin 1996: 224-227) to be helpful to the present discussion. The axiomatic approach is based on four basic tenants of the Islamic ethical system:

1. Unity (*Tawhid*): This axiom indicates the vertical dimension of the ethical system. It provides for freedom of action with the view that each individual is viewed as an integral part of the whole.
2. Equilibrium (*Al’Adl wal Ihsan*): The axiom provides for the horizontal dimension of equity leaving a lot of freedom for policy details, as, for example, striking an appropriate balance between the needs of present and future generations.

3. Free Will (*Ikhtiy’ar*): Although individual freedom is guided by broad guidelines, and individuals may travel their own paths, careful intellection is required “to interpret-reinterpret that freedom within specific societal contexts, and to suit the needs of changing times” (Naqvi 1994: 31).
4. Responsibility (*Fardh*): The axiom states that although “Responsibility” is voluntary, individuals and society need to conserve for the public good, since there is a social aspect of every asset owned or managed by private or public entities.

These four axioms, taken together, lead to a universal ethical system that implies that policies should not lead to dependency, limit to the few opportunities of developing one’s capabilities, nor should policies act to limit individual responsibilities to take action and bear the consequences. Policies should enhance motivation to seek knowledge, enhance productivity, and enhance transparency in government. They should also enhance intra- and intergeneration equity.

In the present discussion, the system of Islamic axioms serves as an ethical ‘filter’ to assess policies - a challenging task. However, our purpose is not to develop Islamic solutions but rather review some current strategies and programs of poverty alleviation/elimination and assess whether their objectives and intentions pass the Islamic ethical filter. Programs and strategies are subject to the inevitable processes of trial and error, a continuous learning process.

This paper is divided into three parts. The first is descriptive. It examines briefly the concept of poverty, its spatial and temporal dimensions, and the challenges of its measurement and its policy assessment over time. The second part is conceptual. It focuses the discussion of poverty around a question that we feel essential to the understanding of its full dimensions, its causes and its remedial and preventive policies: Are the poor, poor because they live in poor communities or unfavorable environments? Or they are poor because their parents were poor? The answer to this question goes beyond economic analyses into the sociopolitical structure of society: the distribution of income and assets including human capital and capabilities, the distribution of opportunities, especially in wage-earning capacity, the role of rent seeking behavior, and the lack of social, geographic and occupational mobility. In that context, the fundamental triangle of poverty, distribution and growth is elucidated.

In the third part, we attempt to reduce the varied strategies dealing with poverty into few basic dimensions: long-term policies targeted to enhance capabilities or increase the domain of opportunities while reducing barriers to mobility, and policies targeted for temporary remedial measures, although some of the latter could become

institutionalized at least for those that may not be empowered, being handicapped or disabled. We also find it instructive to refer to the development paradigms and strategies of the 1960s when national and international interest in economic and social development took hold. The parallel is striking, especially in some of the negative externalities that influence human development. Our search leads to the conclusion that for policies to be effective a technical and empirical understanding of poverty is a necessity, but for that understanding to be effective, it must be combined with efficient institutions and a supportive system of social values. Invoking value judgments based on collective consensus seems essential for the choice and implementation of policies. Long-term commitment requires political consensus especially in a zero-sum game-type environment and where the implementation of policies leads to negative social externalities, e.g., rent-seeking behavior, free-rider-type behavior, or the institutionalization of poverty. The discussion leads to exploring the role of Islam as a system of ethical axioms in supporting policies designed to eliminate poverty while enhance sustainable growth and equitable human development. Finally, the paper ends with concluding remarks.

On the Concept and Measurement of Poverty

The development of effective policies for poverty reduction and the monitoring of their progress and efficacy may not be feasible without a clear definition of poverty that could be measured with consistency across space and time. However, there are known difficult problems with defining and measuring poverty. There is no optimal definition or a measurement technique to compare poverty across countries or even within a country. Three decades ago, Martin Rein (1970: 46) identified three broad concepts of poverty that seem to encompass most of the difficulties associated with poverty analysis: subsistence, inequality, and externality. Subsistence is concerned with “minimum of provisions needed to maintain health and working capacity” (capabilities). Inequality is concerned with the “relative position of income groups to each other.” Hence, the concept of poverty must be seen in the context of society as a whole. Poverty cannot be fully understood by isolating the poor and focusing on their behavior as a special group. It is equally important to understand the behavior of the rest of society especially the richer segment and the rich economies. Externality is concerned with the “social consequences of poverty for the rest of society rather than in terms of the needs of the poor. It is not so much the misery and plight of the poor but the discomfort and cost to the non-poor part of the community which is crucial to this view of poverty.” This latter view provides the political and social dimension of policies dealing with poverty. On the one hand, the poverty line serves as an index of the disutility to the community of the persistence of poverty. It reflects the extent of sociopolitical commitment (cf. Smolensky 1966). On the other

hand, it opens the door for the analysis of poverty as a social stratification problem, whether poverty is inherited across generations, or confined in geographic locations. The conceptualization of poverty has advanced since then, especially its macroeconomic linkages with distribution and growth. Recent advances in this direction have been helpful in elucidating poverty-related policies and strategies (cf. Ali and Elbadawi 1999, Squire 1999, and papers presented at the 1999 World Bank Stiglitz Summer Research Workshop on Poverty, and references cited there-in). However, understanding the sociopolitical environment and required institutional capacities on the local, national, or international levels continue to raise challenges and unsettled conceptual and measurements problems necessary for developing effective policies and strategies.

Each of the concepts outlined by Rein presents numerous conceptual, definitional, and measurement problems. Some continue to be part of the active research on the subject as reflected, for example, in the cautionary endnotes on the data quality, conceptual, and measurement difficulties with data published recently on national and international poverty lines (*2000 World Development Indicators*: 65). It is not evident, for example, whether “the international poverty line measures the same degree of need or deprivation across countries” (*ibid*). The same is true for comparing poverty measures within countries, e.g., rural-urban comparisons. In an attempt to bring together four basic dimensions of human deprivation, the *Human Development Report (1999)* developed a multidimensional Human Poverty Index (HPI) based on health status, knowledge, economic provisioning, and social inclusion. Although maintaining the same conceptual dimensions, the indicators of the HPI vary between the developing countries (HPI1) and the industrialized countries (HPI2). For example, for the latter countries, income measure was used to indicate economic provisions while public provisioning was used for the developing countries. The HPI provides useful cross-sectional and temporal international comparisons. For the developing countries, the HPI1 reveals that, in 1997, human poverty ranges from a low of 2.6 percent in Barbados to a high of 65.5 percent in Niger. Thirty countries had a poverty index of at least 25 percent and fourteen countries with at least 35 percent. The incidence of poverty is widespread and concentrated in Africa and south Asia. However, the HPI seems to suffer from the same problems mentioned above, of data quality and consistency, and, being a macro indicator, the difficulty of interpreting the findings for policy analysis or the formulation of poverty-reduction strategies.

There have been recent advances in survey methodologies and econometric techniques that attempt to get more complete account of household market and non-market income and consumption. The analyses of these surveys provide a clearer

picture of the problem of poverty around the world although with varied coverage and quality. For example, according to some authorities, current survey data and measures do not cover the full dimensions of poverty, required for the development of effective policies that deal with both 'chronic' and 'transient' poverty (Thorbecke, 1999). It is not our intention to provide detailed account of measurement issues. There is a wealth of detailed accounts elsewhere.

Our purpose is simply to indicate that poverty is a multidimensional concept. A quantitative money-metric consumption (or income)-based approach is not sufficient. It needs to be expanded to measure sociopolitical externalities, both a result of the presence of poverty and of the introduction of policies to alleviate poverty. The latter could be a source of significant negative externalities that are of direct conflict with the objectives and performance of policies and programs, as well as with prevailing ethical systems including that of Islam as discussed later. An in-depth understanding of the sociopolitical environment on the local and larger societal and international levels seems essential. There is a lot to be desired in the field of defining and measuring poverty. For example, while the design of better and consistent data should continue to be a priority, there is a need for a better balance and coordination between national and local level commitments to poverty alleviation, although the globalization of labor markets present challenges to such coordination. The localization of policies and raising the awareness of local communities - where data is more accessible and less costly and its use is more effective - about the full dimensions of poverty and its externalities should be part of the larger poverty-reduction strategies. While care needs to be exercised about the optimal size and temporal limits of the distributional component of such approaches; the experience with successful community health strategies and programs, especially those with cost recovery provisions and their synergies with successful macroeconomic policies could serve as an example. At present, care must be exercised in interpreting findings for policy analysis and evaluation.

On the Evolution and Dynamics of Poverty

The previous discussion indicates that poverty cannot be viewed in isolation of the socioeconomic environment and the political system. Poverty-reduction strategies and policies are part of overall 'development' strategies. We focus, however, on the basic triangle of poverty, distribution, and growth and the synergies among them. Although economic forces are important, it is evident that sociopolitical, cultural, and other non-economic factors associated with 'human development' are embedded in these synergies and play pivotal roles in policy analysis of poverty alleviation. An important factor in the present phase of development in the Islamic countries, shared

by most of the developing countries, is the stage of their demographic transition. It is instructive to start with these economic-demographic dynamics as a base for understanding the evolution and dynamics of poverty in these countries. There are three reasons for that focus. The first is that demographic change shapes the destiny of development prospects through their consequences, while being shaped by development processes and outcomes. The second is that demographic outcomes include externalities that have intra- and inter-generation distributional consequences that affect the size and intensity of poverty. The third is that the present stage of the demographic transition presents opportunities for development that have the potential to reduce poverty. These opportunities, however, are conditional on the presence of supporting socioeconomic policies and political commitments. It must be emphasized that the present discussion is not normative in the sense of promoting a course of demographic policy action. It is based on established demographic trends in the developing countries and an analysis of their consequences.

For all practical purpose, almost all the Islamic countries have entered the final phase of the demographic transition. This phase of the demographic transition, associated with delayed but accelerated fertility decline has the potential for positive developmental consequences through its effects on the age structure, labor force participation, and geographic and occupational mobility. This development potential is labeled in the literature as the demographic window of opportunity. The policy focus in this stage should be on how to capitalize on the development potentials of the window of opportunities. Population growth is expected to decline in the coming decades, mainly a consequence of the decline in fertility that was maintained at high levels for generations. Meanwhile crude death rates are expected to rise, as the age structure gets older with the result that population growth declines even faster. An important consequence of these demographic dynamics is the change in the natural growth rates of the various age cohorts. Thus, although the overall rate of population growth is declining, the growth of the population in the working age is expected to grow at rates that are higher than that of the population as a whole, and especially higher than the growth rates of the younger generations. The cohorts in the working age are expected to maintain these high rates of growth for at least a generation, while the older cohorts will gain significantly in relative size in the coming decades. As the populations reach their stationary state, their size will increase. However, the gain in size will be concentrated in the age cohorts above thirty. In fact, the younger cohorts, less than fifteen, will lose in absolute size. These known demographic patterns and changes are certain to materialize. Differences among countries in their demographic parameters are only a matter of timing and expected cohort sizes at the stationary state, and not differences in the pattern of change. However, these

differences could generate inter-country differentials in labor-capital intensity that may generate pressure for labor and or capital migration while increase inequality and the incidence of poverty.

In this transitional environment of high rates of growth of population in the working age and the relative small size of the elderly population, the burden of economic dependency declines and the potential for saving increases, thus providing for a one-time demographic window of development opportunity. The idea of the window of opportunity is simple: with high rates of labor growth, the turnover in the aggregate supply of labor is faster in this stage of the transition. Accordingly its quality, whether good or bad, could be changed at a fast rate. However, the positive opportunity is only a potential. It all depends on whether the potential for saving, generated by changes in the age structure, has been channeled into productive and equitable investment in human capital, enhancing labor demand, and the presence of appropriate social reform among other thing. The window of opportunity could be as negative as it could be positive. For example, the decline of fertility may not be separated from the low equilibrium trap, with no significant improvement in the quality of education. And as evident, the relative abundance of the labor component of this opportunity has been witnessed in many of the developing countries for sometime including Islamic countries but has been squandered through limited human capital accumulation and the prevalence of unemployment and underemployment. The result is the emergence of poverty on a large scale.

One thing is certain in this transitional environment. The supply of labor will more than double in almost all the Islamic countries in the next three decades. This built-in growth presents a double-edged challenge: how to produce, in the face of high rates of labor force growth, a quality of human resources that is internationally competitive and that could also be engaged productively in the local and global labor markets? This prospect requires a sizable social investment in quality education, health and infrastructure. It also implies increased competition in the allocation of scarce resources. Who and how many will be left out in the distribution of acquired capabilities and of productive opportunities, depend to a large extent on the development strategies adopted, especially their effectiveness and egalitarian content. Roemer (1999), for example singles out equality of opportunity in wage-earning capacity as the most important strategy for poverty-reduction policies. As he defined it: "equalizing opportunities for wage-earning capacity across citizens in a society means using social policy (educational policy but other policies, as well) to *compensate* individuals for the disadvantage inherited in their circumstances" (*ibid*: 1, emphasis added). However, to implement such policies requires political will,

favorable polities, long-term commitment and the presence of a supportive ethical system, some of which are in short supply.

Our brief review of the opportunities and constraints set by the demographic window of opportunity, in the Islamic countries indicates the potential for sustained growth that could lead to sustained reduction in poverty, if the right policy environment prevails. The potential saving from a pure demographic structure could be channeled towards equitable human capital formation with internationally competitive quality. Countries in East Asia including some Islamic countries, (Malaysia and to a lesser degree Indonesia) were able to follow that path towards sustainable development and reduced poverty. There are trade-offs, however, between growth, distribution and poverty as illustrated by recent economic modeling that include political factors in their specifications (cf. Rodrik 1998). Some provide enlightened policy recommendations. For example, in a recent study of poverty in the Arab world and the role of inequity and growth, Ali and Elbadawi (1999) used a simple dynamic model of poverty, growth, and distribution to explain the observed experience of selected developing countries located in four regions: the Arab region including six Arab countries, Sub-Sahara Africa, Latin America, and Asia. The model allows investigating for which countries a sustained reduction in poverty would require the acceleration of growth, redistributive measures, or both. The findings reproduced in Figure 1 are illustrative of how poverty responds to changes in growth and distribution during the 1975-1996 period of analysis. For the six Arab countries, although the rate of economic growth was relatively high at 3.3 percent, poverty increased by 1.3 percent mainly a result of the predicted high rate of growth in inequality, at 4.4 percent. For sub-Sahara Africa, the predicted growth in poverty was positive, mainly a result of worsening inequality, with economic growth having had no effect in reducing poverty since its average was zero during the period. The experience of Latin America was similar to that of the African countries, low growth and worsening inequality that generated a high rate of growth in poverty. On the other hand, there was a significant decline in poverty in the Asia sample (China, India, Malaysia, Pakistan, Philippines, Sri Lanka). The increase in inequality was sizable but was more than compensated for by a large growth effect that dominated the negative distributional effect. However, the findings indicate that group averages do not reflect the behavior of individual countries and there are there are significant differences in the behavior of countries within the four groups.

Policies for poverty alleviation should not be based on the average of group behavior. It is true that models that stand the empirical test provide for better overall understanding of linkages. But to alter these behavioral linkages, a better understanding of the contextual setting is required. Inequality may or may not lead

to conflict and increase the incidence of poverty. Outcomes depend to a large extent on the political system, the presence of efficient and adaptive institutions, the initial levels and depth of deprivation, the extent of social stratification, and growth prospects. Even the pivotal role of growth in reducing poverty may be inhibited depending on the structures of these sociopolitical parameters. The recent introduction of some of these parameters, although crudely measured, in modeling poverty based on cross-country analysis is a step forward in elucidating the dynamics of poverty. The effects of these sociopolitical factors have been shown to be statistically significant in many studies. However, the interpretation of these findings for policy formulation proved to be difficult and controversial (cf. Squire 1999).

The developing countries in general, including most of the Islamic countries are in the midst of basic economic-demographic transformation that presents potentialities and challenges. Potentialities are represented by examples of countries that were able to move into a sustainable development path that significantly reduced the incidence of poverty. In most cases, this has been achieved by strengthening the determinants of long-term growth, mainly egalitarian quality education, efficient institutions, and the adoption of the rule of law and isonomy in governance. The absence of these structural conditions, leads to lower growth, higher incidence of poverty, and the erosion of progressive ethical systems (Sirageldin 2000). Poverty-alleviation policies should be viewed in this dynamic context of interaction between growth prospects and progressive values.

Such perspective is not unique to the analysis of poverty. In this writer's view, the failure of the UN decade of development of the 1960s, that saw a shortage of capital as the main constraint to development, or more recently, the difficulties encountered by the oil economies to achieve sustainable development although having no capital constraints, is largely a result of overlooking the negative externalities associated with the style of their development strategies (for a discussion of the oil economies, see Al-Ebraheem and Sirageldin, 2000). It is instructive to reflect briefly on the development paradigms of the 1960s. There is a parallel between that experience, its impact on the path of development of the then less developed countries, and current attempts dealing with poverty alleviation. The parallel is striking, especially in the patterns of its negative externalities. Both seem to view the problem at hand as a transfer problem, with no critical assessment of the impact of such approach on individual motivation, social values, or governance. Although with good intentions, the development outcomes of the 1960s development decade were not necessarily positive. The problems with development strategies and efforts of that era were well articulated by the late Harry Johnson (Johnson 1965: 68-100).

Briefly stated, capital accumulation was viewed as the crux of the development problem. This view was supported by three major sources. These are: the intellectual tradition of English classical economics, a misreading of the Soviet experience with economic planning, and the attempt to bias the analysis of the causes of underdevelopment towards explanations that do not infringe on human self-respect. In this respect, lack of capital, as an explanation of poverty implies no slur on human dignity while lack of application and ingenuity, especially when associated with increased training and human capital formation tend to increase such slur. It took more than a decade of experience with development problems to discover that development is not a simple matter of generating enough capital investment. It is a far more complex problem of generating the human skills and knowledge required for working with and managing the capital and adapt to new technologies and innovations, and this in turn requires a transformation of the economic, social, legal, and cultural environment. Without such transformation, negative developmental patterns emerged. These ranged from substituting productive investments by unproductive spending on trappings and symbols - large armies, impressive and costly public buildings and monuments, the evolution of double standards in national and international relations, and the inhibition of self-reliance. All led to the failure of the development decade for most developing countries. It is easy to see the parallel to the evolution of poverty strategies by substituting poverty for development in the above discussion. We now turn to a review of current efforts of poverty alleviation, their challenges and their adherence to the Islamic ethical system in an attempt to rank poverty-reduction strategies.

Values, Policies, and the Islamic Ethical System

In the previous discussion we focused on the multidimensional and dynamic nature of poverty. Poverty is viewed as part of the larger socioeconomic and political system. In this perspective, it is possible for poverty-reduction policies, if not adequately designed, to produce sizable negative externalities that, after working themselves into the system, dominate the positive impact of policies and produce a net social loss. In this part of the paper we elaborate on this proposition. We focus our discussion on what we label as investment poverty-reduction policies. These are policies whose outcomes are expected to increase production and productivity for present and future generations. Other policies, based on transfers, designed mainly to increase current consumption of people who are poor and lack the capacity to produce, are not examined in the present analysis, although the successful implementation of such policies is expected to increase total social welfare. This is the case, since the obligation to support this group of the poor concurs with universal ethical values and should be considered a private and public duty in any civilized

society. On the other hand, the success of the former type of policies should lead to a reduction in the burden of taking care of the latter group. Furthermore, there are two main types of poverty: transitory and chronic, that requires elaboration.

Transitory poverty arises as a result of temporary loss of job or own business, a bad harvest, or voluntary migration seeking better economic conditions. People with temporary layoff, accidental bad harvests, or migrants may expect to live temporarily in poor conditions but expect their situation to improve. The same is true for people who sacrifice present consumption to invest in additional education and training. This pattern of lifecycle dynamics characterizes a vibrant and dynamic society. However, it is possible that expectations do not materialize, as a consequence of lack of access to credit or constrained mobility, and as a result, the depletion of physical or human capital assets goes beyond the potential for their replacement while the negative effects are being transmitted to future generations with negative consequences to health and education status. These are social consequences since they inhibit the full development of children and other members of society. In such circumstances, people are considered to move from a transitory to a chronic poverty status that increases economic vulnerability and could lead to famine situations. The acceleration in such movements is a signal for increased socioeconomic difficulties. Chronic poverty relates to those who are poor because they do not have the means to get out of poverty either because of environmental conditions, involuntary migration, financial, health, or social mobility constraints. This latter group represents the core of poverty analysis discussed earlier and raises fundamental challenges to the development of strategies and policies for poverty reduction especially when dealing with intergenerational transmission of poverty, poor families or households with large family size. Unfortunately, as mentioned earlier, data on poverty are not designed to present these fundamental dynamics.

Broad Strategies for Poverty Reduction

The previous analysis indicates that poverty is a result of diverse factors and suggests three broad strategies for its reduction: Growth, distribution, and the development of sociopolitical institutions and arrangements for dealing with the poor. These broad strategies, although interrelated, could have different impacts in the long-term and in the immediate and short-terms, on the sustainable reduction of chronic, transitory and other types of poverty. They should be examined as a coordinated package and viewed as essential elements of an overall development strategy. We feel however, that effective growth strategies with built-in equitable opportunity mechanism should serve as the foundation for sustainable poverty-

reduction policies. As discussed below, those proposed strategies are in harmony with the Islamic ethical system outlined earlier.

The presence of poverty on a large scale is associated with lack of development. This fact is evident from reading through *the United Nations Human Development Reports*. As indicated earlier, countries that were able to achieve a sustainable reduction in poverty are those that achieved sustained levels of economic growth and development. Notable examples are Korea, Malaysia, and Singapore among others in which poverty has been reduced to below 15 percent. Indeed poverty continues to exist in all high growth and industrialized countries. But because of the relative low levels of poverty combined with the presence of high income, favorable demographic environment and effective institutions, policies to reduce poverty are relatively less costly and more effective. Growth strategies are long-term processes by nature. To be successful, growth strategies focus on enhancing the long-term determinants of economic growth: quality education, health and other determinants of human capabilities, productive investment, efficient market behavior, and the development of democratic practice and the rule of law.

The poverty-reduction component is embedded in this framework as long as it adopts egalitarian policies for the development of human capabilities and the distribution of opportunities. It is this part of the growth strategy that is essential for sustainable poverty reduction. Equitable investment in education and its quality, especially at the basic level, for all members of the young cohorts is a necessary condition if countries are to escape the vicious circle of poverty. Sufficient conditions are the promotion of an environment for healthy competition, productive opportunities, and fair governance. But the development of such an environment requires consistent moral guidance. It is well known in recent psychological research that moral development and identity is fostered by multiple social influences that guide a person from early childhood in the same direction. Thus, while parents, the education system, and the immediate community provide the basis for industry, imaginative and independent thinking in the formative years, it is transparency in government, isonomy in the rule of law, and other democratic practices and institutions, that provide the needed support and reinforcement beyond these formative years. The transformation of the next generation into a productive, committed, and internationally competitive force, essential for the development of a healthy society and its survival in the present global environment, is nothing short of a true revolution for most of the developing countries, but it is a survival necessity and has been done. It is this vision of 'development with productive equity' that I believe is the essence of a poverty-reduction strategy based on the Islamic ethical system. In that context, not only the prevailing growth strategy, but also all

distributional strategies should be designed, monitored, and evaluated according to these principles.

Strategies and the Islamic Ethical System

The four basic tenants of the Islamic ethical system mentioned at the beginning of this paper indicate that Islam views society as a unified entity, a general equilibrium approach to development. It also provides for an adaptive approach to policy formulation depending on the changing technological and knowledge environment. There is freedom to develop details based on the basic concept of 'equilibrating forces' within and across generations. Furthermore, there is no forcing of action. Individual freedom and human dignity is supreme although subject to the axiom of responsibility. This implies that decision-makers, given the right to acquire capabilities and opportunities, make their own allocation decisions and bear the consequences. Society is committed to provide the necessary environment for equitable access to capabilities and opportunities as well as transparency in government. The burden of utilization is on the individuals. Furthermore, there is a social aspect of every asset owned or managed by private or public entities. The implication is that excessive consumption of present versus future generations is not encouraged and should be socially resisted. The combination of these axioms indicates that policies should not develop 'dependency' or non-productive activities. The poor should not be institutionalized over their life span or across generations. Policies based on transfers that do not shift the poor from their dependency status should not be adopted except in cases where such shift is not feasible. The ethical foundation of this analysis is similar to that embedded in the principles of Islamic finance that prohibit payment or receipt on borrowed funds that do not allow a just partitioning of risk and returns; as it does not allow for a 'permanent' mechanism of risk transfer.

Islamic ethics also rely on individual and private action to reduce poverty. The most obvious is the institution of *zakat*, which institutionalizes the principle of care on the individual and community level, essential for the cohesiveness of Islamic communities. Policies that promote equitable growth, discussed above, have the same principle. It is part of the overall Islamic Bill of Rights and Obligations.

Concluding Remarks

In this paper, we focused on the challenges of eliminating poverty in developing societies. We highlighted the difficulties of conceptualization and measurement, essential for developing and monitoring policies. Poverty is a consequence of lack of growth and inequality. We focused on the growth component since it is essential for

providing the opportunities for those in poverty. Equality is necessary but should be viewed in the context of long-term equal development of capabilities and access to opportunities. This view, we reasoned, is in accordance with the Islamic ethical system where the dignity of human beings is not based on dependency. Furthermore, there is a pivotal role for individual commitment to contribute to poverty alleviation. This is done through the institution of *zakat* that should be viewed as complement to social commitment. In summary, Islamic ethics support a poverty-alleviation strategy that is based on the principle of promoting economic growth with productive equity.

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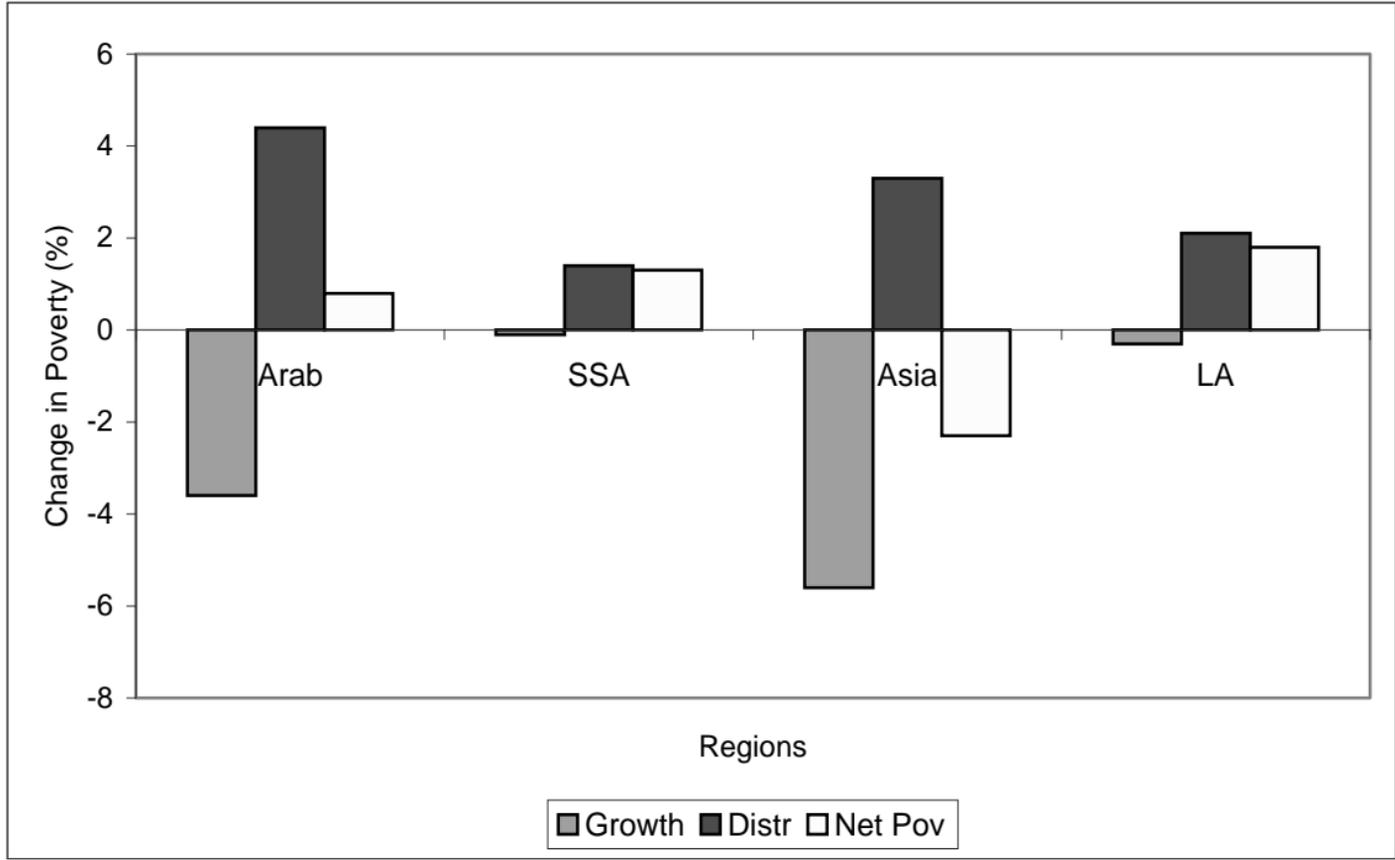
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Figure 1: Dynamics of Poverty in Four Regions (Predicted Annual Average Change in Poverty for 1975-96)



Source: Based on Figure 4.2, in Ali and Elbadawi (1999).