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# SOCIAL SECURITY AND ZAKĀH IN THEORY AND PRACTICE

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ABSTRACT

While the West was first acquainted with the laws of social security only at the beginning of the last century the concept of social security was already introduced by Islam fourteen centuries ago as it articulated a number of institutional frameworks for inclusive and fair development with the institution of zakāh being one of the most important ones. This study aims at analyzing the common features and differences between the zakāh system and the social security system of the modern welfare state of today. To this end, this article attempts to compare some of the theoretical and administrative aspects of both institutions. The principal objective is to highlight the primary principles underpinning each system, which formulate the objectives each system sets out to achieve and the stance of both institutions on some values and common objectives such as social solidarity and equality. The article also discusses the conceptual framework of the two institutions, their implementation models, as well as their economic effects. The overall analysis suggests that one distinct feature of the Islamic approach to social security is that it puts more emphasis on the role of the whole society in easing social ills and providing social security than on the role of the State as is the case in the social security systems of today's modern welfare state. The article argues that the zakāh system aims at attaining different objectives and by nature has different emphasis compared with social security systems of today’s modern welfare state.

JEL Classification: I100, I30, I39

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# 1. INTRODUCTION

The notion of social security is anchored principally in the principles of social justice and in the universal human rights to a standard of living adequate for leading a decent life. Whereas the concept of social security seems to have appeared in the West only during the first two decades of the last century, this concept of social security had already been well-established in the Islamic teachings for social solidarity nearly fourteen centuries ago.

Preceding all nations in establishing the concept of social security, Islam has emphasized that each individual has the right to lead a decent life. It also has made the achieving of this right by individuals the collective responsibility of all society members as it articulated a number of institutional frameworks for social solidarity, the institution of zakāh being one of the most important ones.

No doubt, both zakāh and social security systems share some common values, namely, those related to providing social assistance to the needy. However, the theoretical and administrative aspects of both institutions prove to be different. One of the reasons for this difference perhaps is the emphasis and the ultimate objectives of both institutions. One of the distinguishing differences between the two institutions is that while zakāh is a religious duty involving direct transfer of wealth from the rich to the poor, social security systems are relatively a new contribution of the positive laws of today's modern welfare state aiming at serving specific groups in society beyond those of the poor and the needy (at least in the major part of their design).

In this article, we attempt to outline the theoretical background of both zakāh and social security systems. We discuss the conceptual framework of the two institutions, their implementation models, as well as their economic effects. With respect to social security models, we confine the discussion to those developed in Europe and the United States being one of the first and oldest social security systems developed by the modern welfare state.

We also compare some of the theoretical and administrative aspects of both institutions. The principal objective is to highlight the primary principles underpinning each system, which formulate the objectives each system sets out to achieve and the stance of both institutions on some common values such as social solidarity and equality. The overall analysis suggests that the zakāh system aims at achieving different objectives and by nature has a different emphasis compared with social security systems of the modern welfare state.

The rest of the article is structured in four sections as follows: Section 2 discusses the concept of social security; Section 3 outlines the divine law of social security in Islamic society expressed in the system of zakāh; Section 4 compares the theoretical and administrative aspects of the social security system and zakāh; Section 5 presents the summary and conclusion.

## 2. SOCIAL SECURITY IN THEORY

Social security is based on the notion that there are some fundamental economic risks that some people in society cannot afford to deal with themselves and there are always individuals whose own means and efforts fall shorter than achieving fulfilment of their minimum needs. These needs and losses arising from these risks would place an unbearable burden on these people, depriving them of what universally is been considered as a minimum or reasonable standard of living.

Initially, informal sources such as one's extended family and the local community had constituted the basic source for protection and financial support, in particular in rural areas. However, the industrial revolution with its accompanying rapid urbanization has caused mass migration from rural areas to centers of work in big cities, bringing about massive socio-economic structural transformation in almost all affected societies. Labor migration to urban areas has separated workers from their extended families in the rural areas and has greatly weakened the support traditionally offered by the wider family. This has slowly led to disintegration of the traditional family-based social security. Urban life, on the other hand, had also created a number of new social traditions and values, challenges and risks. Earnings from formal full-time employment have become the only source of living for a large number of people. Because of evolution of formal compulsory education, children have become more dependent on their parents for longer periods. Yet equally important is that new industrial machines in factories and mines exposed workers to a number of new occupational risks requiring new protection schemes All of this has necessitated the evolution of a new security system or arrangement of a collective economic and administrative base in order to provide such security.

## 2.1 WHAT IS SOCIAL SECURITY?

One of the instruments established by the modern welfare state for achieving security is what we know today as social security systems. In this section, we aim to present a brief discussion on what social security exactly means, the historical origin of social security, and various models of social security programs across countries, among other issues.

No uniform definition of the social security concept is unanimously endorsed worldwide. Many descriptions by a number of international organizations have attempted to explain the concept. Most of these descriptions have focused on a common range of vulnerabilities or risks that may pose a threat to the survival of individuals against which they would require external assistance. This assistance may be provided through public policies or programs focusing on income security accompanied by the extension of essential services. For instance, the International Social Security Association (ISSA) defines social security as "any program of social protection established by legislation, or any other mandatory arrangement, that provides individuals with a degree of income security when faced with contingencies of old age, survivorship, incapacity, disability, unemployment or rearing children. It may also offer access to curative or preventive medical care."[1]Along the same line, the International Labor Organization (ILO) has instituted the social security "Minimum Standards" Convention no 102 of 1952, an international document which establishes worldwide-agreed minimum standards for basic social security principles. The document covers eight categories of vulnerabilities resulting from sickness, unemployment, employment injury, aging, nursing and maternity, invalidity, survivorship, and caring of dependent children.[2]

The ILO emphasizes that such social security should be provided through a framework of legislated public measures that guarantee specified rights to specific groups of individuals and impose specified obligations on specific public bodies. In addition, one of the most influential international covenants on social security is "the right to social security – article 9" covenant of the Economic and Social Council (ESC) of the United Nations adopted in 2007. The covenant underlines that "the right to social security encompasses the right to access and maintain benefits for protection from (a) lack of work-related income caused by sickness, disability, maternity, employment injury, unemployment, old age, or death of a family member; (b) unaffordable access to health care (c) and insufficient family support, particularly for children and adult dependents.” The covenant proposes a broad range of measures for providing social security benefits such as social insurance, targeted social assistance schemes, privately run schemes and community-based or mutual schemes. One notable issue about the ESC’s approach to social security is that it somewhat extends the responsibility for provision of social security to boundaries beyond that of the State’s.

A related term that may often be confused with the concept of SS is the term of “social protection – (SP)”. While both concepts focus on the same issues related to providing adequate social safety nets to potentially vulnerable people, SP, in addition, embraces dealing with implications of social risks arising from far more complex contexts than those falling within the domain of social security. These are vulnerabilities arising from social exclusion, labor market malfunction and persistent poverty (Holzmann and Jorgensen, 2001; Brunori and O’Reilly, 2010). Thus, besides social security measures such as social insurance and social assistance, the two critical components of a State’s SP system, other important measures of SP include minimum income and active labor market policies. Brunori and O’Reilly (2010) argue that almost any public intervention in such domains as health care, education policy and many other development policies could be considered more or less directly part of the social protection system. Nevertheless, within this broad framework of SP concept, many argue that this concept of social protection is more acceptable and workable than the concept of social security in developing countries, where there is a wide spread of informal economy (Saunders, 1997).

## 2.2 A BRIEF HISTORY OF SOCIAL SECURITY

Three stages can generally be identified in the evolution of social security systems in Europe. In the first stage, most poor relief mostly in the form of food and clothing came from voluntary private charities, informal social groups and religious groups. Starting as early as 1590 as poverty became rampant in Europe, authorities began to take a more selective approach in supporting the poor. The English Poor Law of 1601 was the first systematic codification in the English laws on the responsibility of the state to provide for the welfare of its citizens. Poor reliefs under the law were local and community controlled. It distinguished between the “deserving” and the "undeserving" poor and mostly covered the young orphans, the elderly, and the mentally and physically handicapped.

It was after the industrial revolution in the late 19th and early 20th centuries that an organized system of social insurance was established. Otto von Bismarck, Chancellor of Germany introduced one of the first social insurance systems for the working classes in 1883 in Europe. The program provided workers with pension, sickness insurance, and accident insurance. This, in effect, marked the beginning of a second phase in the history of social security in Europe. From Germany, the idea of social insurance spread to other European nations. Great Britain passed an old-age pension act in 1909 and added unemployment and health insurance in 1911. Other European nations followed in rapid succession: Sweden, 1913; Italy, Spain and the Netherlands, 1919; Denmark, 1921, Luxembourg, 1922; France, 1928; and Greece, 1932. Surprisingly, The United States did not have an organized welfare system until the Great Depression when emergency relief measures were introduced by President Franklin D. Roosevelt under the New Deal. A series of economic programs were enacted in the United States between 1933 and 1936, including the Social Security Act of 1935 among other relief, recovery, and reform programs (Vaughan and Vaughan, 1999).

After World War II a third stage in the evolution of social security systems started around the world influenced by the British government's report of 1942, called the "Social Insurance and Allied Services", and widely known then as the Beveridge report after its author William Henry Beveridge. The report argued for a unified national scheme of social security run by the State and focused on expanding social security measures to cover all citizens, which would achieve social justice. Later, the report formed the basis for most of the post-war reforms in the social security system and World War II welfare state in Britain, in particular, and the rest of Europe in general.

Before the Beveridge report, social security measures were mostly confined only to the employed in the formal market. However, proliferation of the Keynesian macroeconomic theory, which emphasized the important role the public sector may play in addressing the inefficient macroeconomic outcomes caused by the private sector, constituted a very important tool in carrying out these massive social security reforms suggested in the Beveridge report. By 1970, there was a further major expansion of social insurance to more countries, covering higher percentages of the population and wider risks. Some of the major innovations in social insurance since then were the introduction of adjustable pensions to inflation rates and extension of health-care rights to all citizens.

## 2.3 EFFECTS OF SOCIAL SECURITY SPENDING ON ECONOMIC GROWTH

An ongoing debate surrounds the impact of government expenditure on social security programs on the economic growth and overall social welfare. The underlying question in this debate is whether income redistribution by way of social security programs, which are claimed to have been designed primarily to contribute to the reduction in income inequality, has positive or negative impact on economic growth. In this context, the theoretical arguments and empirical studies have produced mixed evidence.

Gwartney and Stroup (1986) argue that expansion in welfare transfers of any verity encourages higher marginal taxes, which in turn lowers aggregate output and creates negative work incentives for the poor. Therefore, much of what the poor receive in transfer benefits represents merely a replacement income. In addition, they contend that “public sector antipoverty programs tend to crowd out voluntary charity, which is more likely to be cost effective”. Similarly, Arjona et al. (2002) maintain that because people have rights to social security benefits they are less likely to take on low paid work and to save, which ultimately lowers investment and thus economic growth. However, much of the severe negative incentives in the labor market caused by social security programs depend on the institutional characteristics of the programs themselves. The higher the replacement rate and the longer the benefit duration the lower the outflow rate of unemployment (den Butter and Kock, 2001).

On the other hand, a number of academic researchers assert that there are multiple reasons for the beneficial effects of social security spending on economic growth. For instance, Ehtisham et al. (1991) argue that social protection provided through comprehensive social security systems leads to a more coherent society and enables individuals to take more risky economic decisions, which in return reinforces growth. They also contend that social-security programs can combat regular and persistent hunger and hardship in developing countries. Social spending, in particular, in developing countries is vital to a sustained effort to eradicate absolute poverty and social exclusion, which support inclusive economic growth (Shepherd et al. 2005). Extension of social security helps address rising income inequality and improve productive capacity among the poorest households (Korpi, 1985). Using panel data for 118 developing countries covering the period 1971-2000, Baldacci et al. (2004) analyze the links between social security spending, human capital, and economic growth. They find that social spending on education and health has significant positive impact on human capital hence inducing substantial improvements in economic efficiency and growth. Similarly, Herce et al. (1998) evaluate the effect of total social protection expenditure on growth in the European Union during the period 1970-1994 and find significant positive impact of old age, health and family programs on growth but not much impact for housing and employment programs. Beyond a certain level, however, the positive impact of social expenditure on economic growth may reverse. This level lies at the point where the level of welfare gets too large, hence reducing incentives for work and discouraging labor participation (McCallum and Blais, 1987).

### 2.4 MODELS OF SOCIAL SECURITY SYSTEMS – A CROSS-COUNTRY OVERVIEW

Despite comparatively common social and economic risks around which social security models are designed across different countries, there are some differences in what is generally perceived by the concept of social security and how much of a nation's resources should be devoted to achieve a minimum level of social security.

For instance, there exist some differences as to financing or funding resources, contents of coverage, level of benefits, eligibility criteria, and so forth. Detailed cross-country comparison is well beyond the scope of this article. Saunders (1997) argues that such a difference is partly due to different cultural traditions, social values and priorities across different countries. After all, any social security strategy has to reflect the national identity to succeed. In addition, several studies, notably by the International Labor Organization (ILO) and United Nations Department of Economic and Social Affairs UN/DESA, and others, attest that social provision is most often driven by a country's political and policy environment much more than by its level of economic development (Brunori and O'Reilly, 2010).

Presently, however, across most countries, social security systems typically consist of three types of benefits as follows:

i. Social insurance benefits: compulsory and contributory insurance program with contributions mostly linked to wages and paid jointly by employees and employers. It is not means tested with levels of benefits and duration closely linked to previous contributions made by the scheme members. It usually covers payments for retirement, unemployment and disability.

ii. Social assistance benefits: non-contributory social benefits, mostly means tested and entirely financed by the general tax revenue. These benefits are usually directed at the disabled, the elderly, poor households, the underemployed and working poor, and so forth.

iii. Universal or welfare benefits: non-contributory benefits provided to the entire population mostly without means test such as most child and family support benefits in most European countries and national health services in Spain, Portugal, Denmark and Sweden. In the United States, however, “welfare” is most often used to refer to means tested cash benefits.

For example, in Spain, the two main contingencies covered by the social insurance program are pension and unemployment insurance with replacement rate of 100% and 30% respectively compared to 87% and 77% pension replacement rate and the 44% and 28% unemployment replacement rate in France and Germany respectively (according to 2001 statistics). The program also covers many other contingencies such as illness, maternity, accidents, death and survival, and invalidity. In 1986 health care was institutionalized in Spain as a universal national health system which is entirely financed by general tax revenue and provides free healthcare services for the entire population (Ignacio, 2006). In France and Germany, in contrast, the health care system is financed through a mix of public and private contributions. In France, the social security system consists of a number of statutory contributory schemes. They are the compulsory general scheme covering most employees and, various "special" schemes covering specific categories of non-agricultural workers (such as railway workers, mineworkers and gas and electricity workers), the agricultural scheme, which covers agricultural-sector employees and non-salaried workers, the compulsory basic and supplementary pension schemes, and unemployment insurance scheme covering all wage earners. The general and special schemes primarily cover such contingencies as sickness, maternity, paternity, disability, death, workplace accidents and family benefits (European Commission, 2013). Similarly, Germany has an elaborate social security system comprising five basic schemes covering health insurance (about 85% of the German population is insured under the German national health system), pension insurance, unemployment insurance, occupational accident insurance and social indemnity. The latter is paid by the State to such vulnerable persons as disabled war veterans, war widows and orphans, soldiers with service-incurred health problems and victims of violent crime (European Commission, 2013).

Compared to other European countries, social security benefits in the United Kingdom (UK) and the United States (US) are significantly small. For instance, in 2001 the pension replacement rate stood at 40% and 58% and unemployment replacement rate at 17% and 14% in the UK and the US respectively (Ignacio, 2006). In the UK, however, the term social security is used in a narrower sense. Only statutory benefits in cash are regarded as social security whereas the term social services is used to cover social security; health, education, and housing services; and provisions for social work and social welfare. The structure of the UK social services includes six social insurance schemes covering old age, disability, survivors, sickness and maternity, work injury and unemployment besides the means tested family allowance welfare scheme paid by the State and covering child benefits, poor households, and persons with severe disabilities (European Commission, 2013).

In the United States, The Social Security Act of 1935 stands as the most comprehensive piece of social legislation of its kind in the history of the country. It established the Old-Age, Survivors and Disability Insurance Program (OASDI), the largest of all government insurance programs in the U.S. Initially it provided only retirement benefits in 1939 and then was modified in 1956 to include disability benefits and the Medicare program. As currently constituted, the program provides life insurance, disability insurance and retirement pensions to virtually all gainfully employed persons and their dependents. The only exceptions are certain government employees covered under a civil service retirement system and railroad employees protected under their own programs. The program is primarily funded through dedicated payroll taxes. Among the welfare non-contributory and means tested programs funded from the U.S. treasury general funds are the Aid to Families with Dependent Children (AFDC) program and Supplemental Security Income (SSI), a government program providing stipends to low-income people who are either aged (65 or older), blind, or disabled (Vaughan and Vaughan, 1999).

# 3. ZAKĀH SYSTEM IN THEORY

While the West was first acquainted with the laws of social security only at the end of the last century, Islam had already introduced the concept of social security and caring for the poor fourteen centuries ago. Islam emphasizes that all individuals should unconditionally be entitled to an adequate minimum standard of living. Besides, it makes this entitlement a responsibility of the society towards those who are for any reason unable to work and unable to fend for themselves and their dependants. One of the Islamic rulings aiming at establishing socioeconomic justice is the rule of collective social responsibility operationalized through the Islamic institution of zakāh. In this section, we are going to discuss briefly the system of zakāh in Islam, how it differs from the tax system, its perceived economic implications, and models of zakāh systems across different Muslim countries.

## 3.1 WHAT IS THE ZAKĀH SYSTEM AND HOW IS IT DIFFERENT FROM THE TAX SYSTEM?

Zakāh is one of the fundamental pillars on which the religion of Islam is founded. Linguistically it means purification or "making pure" in the sense that the act of giving zakāh purifies the hearts of zakāh payers form selfishness and greed and makes their wealth grow with the blessing of God. Terminologically zakāh is defined as an obligatory specific share of one's specific wealth paid for the benefit of eight specific groups of people specified in the Qur'an.[3] Being an obligatory duty, zakāh is distinct from charity (ṣadaqa) which is voluntary.

To begin with, zakāh is generally levied on one's Māl, which includes both the stock of wealth and the flow of income earned.[4] Although the Qur'ān makes only very general reference to the types of items subject to zakāh (e.g., Māl earned in halal manner and Māl grown by God from the earth),[5] Sunnah has elaborated on a range of zakātable items with rates of zakāh for each group of items, criteria for imposition of zakāh as well as items exempted from zakāh.[6] Since detailed discussion on types of zakātable items falls beyond the scope of this article it is imperative to note that except for those items explicitly exempted from zakāh (such as Māl for personal use or consumption) the listing of zakātable items is not limited to those items specifically mentioned during the era of the Prophet, peace be upon him; it rather includes all contemporary forms of wealth and income whose criteria of zakātability have been established by scholars.[7]

Māl that is subject to zakāh must fulfill certain conditions, such as being owned by individual Muslims.[8] This condition implies the exclusion of state-owned and awqāf properties from being subject to zakāh.[9] Furthermore, zakāh is a yearly obligation, meaning that no more than one payment of zakāh should be effected on the same asset during a period of one lunar year. Additionally, the base of zakāh (the amount or value of the Māl subject to zakāh) should be above a prescribed minimum amount defined for each group of zakāh items – or so called "Nisāb". Compared to the tax system, which most often takes no notice of the taxpayers' ability to pay, these conditions of zakātability imply that only the rich should pay the zakāh for the purpose of wealth distribution and circulation.

Zakāh proceeds are not part of the general public revenue. Therefore, they cannot be utilized for provision of general social spending or public goods and services. Rather zakāh proceeds must be distributed to specific groups of recipients mentioned clearly in the Qur'an.[10] They are the poor, the needy, the employed in the administration of zakāh funds, non-Muslims whose hearts are to be won over, liberation of slaves, people in debt, in Allah's cause, and the traveler.[11] However, the scope of zakāh distribution (meaning the application scope) has been broadened to reflect the changing circumstances of contemporary time provided that the distribution remains within the limits of providing benefits to the poor category of society and not to be expanded to general socioeconomic infrastructure. This includes, for instance, provision to the poor education facilities and low-income housing. The ratio of zakāh distribution between groups eligible for receipt of zakāh and location of distribution remain subject to debate between scholars. Whereas some allow only equal distribution between the eligible recipients' eight groups and within the locality of zakāh collection, others argue for the permissibility of discretionary distribution of zakāh proceeds between eligible recipients and across a wider area beyond the locality of zakāh collection. Detailed discussion on the fiqhi opinion of these issues falls beyond the scope of this article.

The underlying assumption of zakāh imposition is that the ownership of all wealth on the earth belongs to Allah and man is merely a trustee of this wealth for the sole purpose of preserving it for the benefit of all humanity. Therefore, Allah has the right to direct the distribution of His wealth in His way. In this context, zakāh is imposed as a means for wealth redistribution from the rich to the poor for the purpose of bridging economic disparities and income inequality in a framework of social solidarity.

Finally, zakāh differs fundamentally from tax in a number of aspects despite both implying imposition of levies according to which both the zakāh payer and taxpayer become liable to a financial obligation. Some of these basic differences can be set out as follows: First, while tax is a civil duty, zakāh is a religious duty. Second, whereas the government may utilize tax proceeds for general budgetary items, zakāh is only dedicated for the benefit of the eight groups of recipients identified. Third, though tax rates may change according to the fiscal policy imperatives, zakāh rates remain constantly fixed. However, if the proceeds of zakāh are insufficient for guaranteeing an adequate minimum standard of living for the poor, additional obligations must be imposed on the rich until these needs are satisfied.[12]

## 3.2 ECONOMICS OF ZAKĀH

Although there is a consensus on the general redistributive effects of zakāh on economic development and the socio-economic role that it plays through enhancing welfare in Islamic society, there seems to be in the Islamic economic literature some divergence about the significance or the extent of the impact envisaged within this role of zakāh.

A strand of literature for instance, suggests significant multidimensional effects of zakāh on a number of micro and macro-economic variables such as saving and investment behavior, aggregate production and consumption, economic growth, poverty reduction, and so forth. Some of the arguments suggest that zakāh results in increased aggregate consumption as it transfers resources from the rich to the poor whose propensity to consumption is likely to be higher than that of the rich (Metwally, 1986).[13] Zakāh also influences the composition of aggregate consumption, driving it away from luxury goods and bringing it toward those commodities that fulfill basic needs, which in effect increases the allocative efficiency of the economy and production (Mannan, 1989).[14] In addition, unlike tax, which may produce negative work incentives, payment of zakāh being a religious obligation that every Muslim would like to maintain, would in effect add to work incentives thereby increasing the rate of labor force participation, which ultimately increases the output leading to higher employment and higher economic growth (Chowdhury, 1980).[15] Furthermore, zakāh positively influences the level of investment in the economy being payable even on idle or unused resources which discourages hoarding and unproductive use of resources (Chapra 1980; Awan 1989).[16] Regarding the zakāh effect on return on capital, Al Jarhi (1985) argues that implementation of zakāh increases return on capital and induces more equitable distribution of income. Awad (1989)[17] emphasizes the role of zakāh in economic stabilization as a counter-cyclical tool used through the fiscal policy. They argue that zakāh would complement taxation and government spending as tools of fiscal policy. More recently, Azam et al. (2014) studied the impact of zakāh on micro and macro-economic development in Pakistan and found that it significantly enhances household welfare and contributes to economic growth in Pakistan. Similarly, Abdullah et al. (2013) examined the relationship between zakāh and income increase of zakāh recipients in Pakistan and found a highly significant relationship between the two.

On the other hand, an alternative set of arguments has evolved questioning the significance of the alleged effects of zakāh on various economic variables as discussed above. For example, Monzer (1999) argues that given the actual application systems of zakāh across countries under which zakāh is collected, proceeds have not even exceeded 0.5% of GDP at best, and that almost all the theoretical analysis of the impact of zakāh on economic development remains out of touch with reality and hence must be revised. Furthermore, in his view, current systems of zakāh need to be re-considered with respect to a number of issues such as coverage of zakātable items, and that estimate models of zakāh must reflect practicality and cost involved in collection for any reasonable assessment of the economic impact resulting from zakāh implementation. However, in view of certain assumptions including minimization of zakāh collection costs and the time lag between collection and distribution of zakāh proceeds, and that zakāh collection does not reduce other revenue sources of the government Kahf (1997) believes that implementation of zakāh can relieve some budgetary revenues to be used for other budgetary objectives. Also, only if new forms of wealth and new sources of income are considered zakatable and innovative forms of zakāh distribution focusing on permanent rehabilitation of the poor with strong measures for collection adopted by the State, can zakāh have potential effects on the eradication of poverty in the Muslim world (Kahf, 1989). Munawar (1985) assesses the impact of zakāh on consumption and concludes that the net effect of zakāh on the marginal propensity to consume is neutral. More recently, Mohamad (2011) analyses the impact of zakāh on improving the welfare of zakāh recipients in Indonesia as described in the Human Development Index (HDI) and finds no evidence of direct impact of zakāh on the value of HDI. Similarly, Suprayitno et al. (2013) study the impact of zakāh distribution on aggregate consumption in Malaysia and report a small and short run positive impact.

## 3.3 MODELS OF ZAKĀH IMPLEMENTATION IN MUSLIM COUNTRIES[18]

Essentially, since zakāh was first imposed in the second year after the migration of the Prophet, peace be upon him, from Makkah to al Madinah, zakāh collection and payment was the responsibility of the state.[19] Except for Yemen in which the State remained in charge of zakāh collection and distribution, different contemporary models of zakāh implementation have been developed and introduced in a number of Muslim countries. Whereas the government retained its role in obligatory zakāh collection and distribution in such countries as Saudi Arabia, Sudan and Libya, in many other countries such as Qatar, Kuwait, Bahrain, Pakistan,[20] Oman, and Jordan, among others, the government has delegated this role by way of law to dedicated and private not-for-profit or governmental non-forceful organizations. Payment of zakāh to these organizations, however, remained voluntary. In the following, we will try to explore some of the zakāh models in the countries where zakāh collection is made obligatory by the government.

In Saudi Arabia zakāh collection is undertaken by the agency of “Zakāh and Taxes”, an administration within the ministry of finance. Zakāh on agricultural produce and livestock is collected by special committees consisting of representative members of relevant government agencies. Zakāh is collected on agricultural output, livestock, trade inventory, mobile business assets (including cash balances) and income of self-employed professionals. However, salaries, cash holdings and bank deposits of individuals, and business immobile assets are not subject to zakāh. Disbursement of zakāh is made from the government’s general budget and is distributed through the ministry of labor and social welfare. Similarly, zakāh collection in Yemen is done through a government directorate called “The General Administration for Zakāh Duties.” It is disbursed from the government general budget under different headings through relevant government ministries such as the ministry of health and education and the ministry of social welfare. Items subject to zakāh are almost the same as those in Saudi Arabia.

The zakāh system in Sudan is considered the most comprehensive one. It is not confined to items mentioned above but rather includes salaries, wages and professional income too. Cash holdings and bank deposits, however, are exempt from zakāh. The zakāh collection and distribution is made by the chamber of zakāh, a government fund affiliated to the ministry of religious affairs. In contrast, Libya imposes obligatory zakāh only on agricultural output and livestock. Zakāh collection is made by the general directorate of zakāh and disbursed through the department of social welfare. Unlike most zakāh models in other countries zakāh in Pakistan is collected by the State on a mandatory basis from savings and deposit accounts along with other items including agricultural output. Except for the latter which is collected by locally appointed committees of volunteers supervised by the zakāh administration, the zakāh on items such as bank accounts and common stock companies is collected at source. Zakāh distribution is done through charitable agencies alongside the local committees.

## 4. SOCIAL SECURITY SYSTEMS AND ZAKĀH

To the basic question of what common features and differences exist between the social security system of the modern state and the zakāh system, it is imperative to compare some of the theoretical and administrative aspects of both institutions. The objective here is neither to propose the superiority of one system over the other nor to suggest that they are similar to or different from each other, but rather to highlight the primary principles underpinning each system, which formulate the objectives each system sets out to achieve. We also attempt to clarify the essence of the stance of both institutions on some values such as social justice and equality and social solidarity, common features or common objectives of both institutions.

The main distinguishing feature of the institution of zakāh is its being a religious duty. Compared to social security systems, which are relatively a new contribution of the positive laws of today's modern welfare state, one would fairly expect the ideological foundation of both institutions to be different or at least formulated to achieve different objectives. By ideological foundation, we mean the set of values and principles that both institutions are based upon which gives each its distinctive structure. In fact, there is no reasonable argument, which may suggest that the system of zakāh was not originally and primarily initiated for the sake of securing a minimum level of social security for the poor and the needy. By definition, zakāh is a transfer of wealth from the rich to the poor or from the haves to the have-nots. The underlying assumption here is that all the wealth on earth belongs to God and men are just trustees with whom God has entrusted His wealth for the sole purpose of preserving it for the prosperity of all humanity. No one, therefore, should be denied fair access to this wealth.

In the context of Islamic teachings of social justice and equality, zakāh is considered as a purification of wealth and a cause of blessing. Hence, it is perceived by all Muslims as an entitlement or a guaranteed right to the poor on the wealth of the rich. By comparing this attitude of support for zakāh institution in Muslim communities with earlier laws provided for the poor in the nineteenth century, which has developed to what is today known as means-tested social assistance programs, provision of the needs of the poor was considered a rather necessary evil than a responsibility or a function of the State. Unlike zakāh which was well received and was purely oriented toward achieving socioeconomic balance, social assistance programs usually faced public resentment and were associated with a stigma, and were most often influenced by economic and political rather than social reasons (Shionoya, 1998).

Zakāh is not a universal right as is the case in some non-contributory and non-means-tested social allowance programs, but a well- defined system targeted to specific groups in society, namely the poor and the needy. Therefore, potential recipients of zakāh are also bound by Islamic values and morality not to exploit the system and claim what they do not deserve from zakāh proceeds. In the Islamic teachings this is considered as an infringement on the right of the poor. This emphasizes the moral-based ideology upon which zakāh is founded. This is true because zakāh is a product of divine revelation oriented principally to lay the foundation for social solidarity and the responsibility of the whole society to the poor.

It is for this reason, in fact, that the zakāh system, if implemented efficiently, is believed to have real potential to effectively address the problem of poverty. Indeed, this is the essence of zakāh and, in fact, is the ultimate objective hoped to be achieved through it being a system of a direct transfer of wealth from the rich to the poor. In the context of social security strategies, there has also been a long-standing debate over the issue of poverty. It however, never was the intended objective to address poverty at least in the design of many social security programs in many countries. In the most part of these strategies, social security is seen as a mechanism of income redistribution from the younger generation to the older generation, from the healthy to the sick, and from the employed to the jobless. This undeniably involves a substantial amount of income redistribution, but not necessarily redistribution from the rich to the poor. For instance, while low earners are usually more susceptible to work-related injuries and to the conditions of unemployment, higher earners as they live healthier and longer tend to draw on pension benefits for longer periods. Furthermore, as entitlement to social security benefits is matched with contributions, which are related to earnings, low earners tend to enjoy lower benefits barely enough to put them just above the poverty line. Besides, in some schemes it is difficult to bring some vulnerable groups of the population, such as the self-employed and the informal laborer (e.g., agriculture or domestic workers) into such schemes, which most often results in these groups falling into poverty. In fact, these groups of vulnerable people represent the targeted recipients of zakāh. In this sense, we would personally be inclined to think of zakāh as an ultimate safety net that catches those who fall out of the formal social security net.

Accordingly, whereas the theoretical foundation of the moral principles underlying the system of zakāh is well-established and unanimously agreed upon, the formulation of the ideological foundation of social security or the moral principles which social protection systems drew upon seem to be vague. By being vague, we mean not being agreed upon widely. For the most part, for instance, social security principles represent mostly a purely subjective perception of the values prevailed during the various stages the welfare state has undergone across its history. For example, the fact that social security systems for pensions, medical and long-term health care form an important part of social and economic life in most present-day capitalist countries is merely a manifestation of a social necessity articulated and justified on some set of commonly shared values. Otherwise, they would have been diminished or even disappeared due to economic and fiscal reasons or political pressure. However, these values may not necessarily be moral-based. In most cases they might be politically and economically motivated.

They might have emerged as a result of many mainstream ideologies adapted by the modern welfare state. After all, social security programs are only a product of a given country's social policy. For instance, libertarians such as Nozich and Friedman argue that the welfare state represents a threat to the market system and infringes on individual rights and freedom. They argue that State interventions in social activities are usually achieved through the tools of legislation and taxation which they suggest involve a reduction in personal property and freedoms. Therefore, they propose that the State should be involved in only very limited social safety net arrangements. On the other hand, socialists regard the welfare state as a failure of the capitalist State and destined to die. Marxists for example, accuse the welfare state of using social policy's technical tools to solve what are essentially political issues. Yet, other socialists see the welfare state as a tool acting for the benefit of the elite class (Stanko, 2004). Comparing this with the view of Islam of the responsibility of the State for the welfare of the poor (carried out principally through the zakāh system), makes evident that the difference between the ideology of zakāh system and social security systems is a moral one.

In addition, the zakāh system is an obligatory charitable system whereas social security system is a compulsory contributory savings plan designed principally to provide against certain risks. This makes the two systems feature a number of fundamental particularities that distinguish them in essence. In the following, we attempt to clarify some of these differences.

To begin with, being a charitable institution, zakāh is not a member-based institution as is the case for social security systems. While contributions under zakāh are based on the notion of benevolence and poor relief, contributions to social security systems are for the benefit of the system's members themselves for safeguarding against common social risks such as disability, retirement, and so forth. This carries very important implications on the nature of socioeconomic effects hoped to result from the pattern of income redistribution achieved under each institution. For instance, whereas redistribution of incomes achieved through zakāh is characterised by being horizontal, being a transfer from the rich to the poor and hence aimed at adjusting income inequalities, redistribution of incomes under social security is characterized of being vertical or inter-temporal that entails only smoothing of incomes of its members during different stages of the life cycle. Given this, one may be inclined to think of zakāh as an overall safety net that provides an inclusive support to the poor of the public and of social security as a specific safety net, which provides specific benefits to specific groups of society. However, as far as social security services are provided within the framework of social assistance (those services characterized as non-contributory and means tested) there may be some resemblance in the envisaged objectives of social assistance programs and zakāh in that both are oriented to the poor, are means tested and aim at improving conditions of income inequality. However, the ideological foundation of the two may differ as explained before.

In addition, compared to social security benefits, which are paid after certain qualification and conditions are met and only after a regular source of income has been interrupted, zakāh is needs-based distributed to supplement current incomes falling below adequate living standards. In this sense, contributory social security schemes cannot be seen as needs based but rather non-means tested payments not based on current level of income or wealth, but rather on previous contributions and upon the occurrence of certain contingencies specifically covered under the scheme such as disability and sickness, and so forth. Therefore, such schemes do not provide benefits to persons who have never entered the workforce or persons who have become disabled before entering the workforce or even those incurring contingencies shortly after getting into employment. Although these groups of people may be covered under non-contributory social assistance programs, it is well acknowledged that access to adequate benefits under these programs is always dependent on resource availability (being funded by taxes), and by no means is easily attained (being governed by complex legislation.) This may cast some doubt over the declared statement of social insurance programs of being formulated on the basis of justice, social solidarity and inclusion. One basic question arising here is how these programs or systems of social security can claim such a statement when in the major part of them, the entitlement for benefits is purely defined on basis of individualism, meritocracy and self-interest.

Compared with the role zakāh plays in establishing the right of the poor and the responsibility of the rich, as discussed before, it appears that both tools of zakāh and social security set to achieve different emphases or objectives in the context of social solidarity. Whereas zakāh emphasizes the responsibility of all individuals especially the rich in the context of social solidarity, social security systems emphasize individual self-interest and personal development in the use of one’s talents in grabbing economic opportunities. After all social security benefits are a function of individuals’ contributions to the system during their working life.

As the concept of social security implies these contributory social security programs as they generally involve protecting against specific predictable risks, they, in fact, reflect somewhat an active approach to social risk management. In this context social security may be viewed as a risk mitigation tool as it represents ex ante actions aimed at reducing the effect of future undesirable events. The situation in the case of zakāh is quite different. The act of giving or receiving zakāh involves no actions intended for financial planning. Besides, zakāh being a financial assistance for supporting current incomes of low income groups deals only with ex post events where contingences have already taken place.

Enrollment into social security programs is compulsory in almost all countries. Also, because rules of social security schemes are made into legislation, entitlement to benefits after satisfaction of basic qualification conditions is considered a statutory right. In most countries, social security schemes are centralized government-run schemes administered by a ministry or by a semi autonomous agency (except for health care and social assistance, which are decentralized to lower levels of government). Levels of contributions to the system and level of benefits enjoyed or promised under the system are known in advance. Schemes are financed by contributions levied on both employers and employees with, in some cases, modest state subsidies. In contrast, individuals who are potential payers of zakāh remain liable for zakāh payment under all circumstances. Most importantly, the government cannot contribute to the zakāh institution out of its public funds. However, this imposes no limitation on the power of governments to levy taxes if zakāh proceeds fall short of achieving the objectives of the zakāh system. In other words, the role of governments in addressing the socioeconomic imbalance that both zakāh system and social security systems are initially meant for, is not less or more restricted in any way in societies where zakāh systems are introduced on a voluntarily or involuntarily basis. And depending on a country's approach to implementation of the zakāh system, zakāh may be administered at the government level or be run by private not-for-profit organizations on a voluntarily basis under governmental supervision.

Finally, in terms of the operating system mechanisms, the administration of zakāh is different from that of social security systems. Whereas the running cost of the social security systems remains a burden on governments' budget, governments, to the extent zakāh proceeds are sufficient, bear no cost related to administering zakāh systems. This is because 1/8th of zakāh proceeds are appropriated to cover such cost, which in a way represents a cost relief on the government budget. From this aspect, one may think of the zakāh system as being a self-sustained or a self-supporting system compared to dependent systems such as social security systems.

## 5. CONCLUSION

While the West was first acquainted with the laws of social security only at the beginning of the last century, the concept of social security and caring for the poor was already introduced by Islam fourteen centuries ago. However, one distinct feature of the Islamic approach to social security is that it puts more emphasis on the role of the whole society in easing social ills and provision of social security than on the role of the state, which bears the ultimate responsibility for basic needs fulfillment of the poor only after social mechanisms fail to achieve their objective. In this context, zakāh is considered one of the first formal institutions of social security in the history of humanity. For this reason, the zakāh system aims at achieving different objectives and by nature has different emphasis compared with social security systems of today's modern welfare state. Thus we assert that if the zakāh system is operated efficiently, it could provide a great relief to the governments' budgetary deficit pertaining to the provision of social assistance to the poor. It could also help in addressing the problem of poverty and a multitude of other economic problems faced by Islamic developing countries.

In contrast, social security systems represent a tool used by the modern welfare state to intervene in setting the overall ideology of its social values and rules. Therefore, as long as these values differ between countries, so do welfare provisions of their social security systems. In this sense, while the concept of social security seems universal, its form and spirit are not. Although the general design of the system usually evolves from common needs for social protection against specific social risks such as old age, disability, healthcare, unemployment, and so forth the objectives underlying these systems most of the time serve purposes beyond those aiming at providing for the needs of the poor.

## ENDNOTES

1. The International Social Security Association (ISSA) is an international body founded in Geneva in 1927 and is principally entrusted with the job of promoting and developing social security worldwide. Currently

ISSA has 338 member organizations in 157 countries and territories. http://www.issa.intl.

2. The International Labor Organization (ILO) is an international body founded in 1945, working under the umbrella of the United Nations and primarily responsible for drawing up and overseeing international labor standards. http://www.ilo.org.
3. This obligation of zakāh was explicitly mentioned in the Holy Qurān 30 times and in a number of Ḥadīths of the prophet (peace be upon him).
4. For more discussion on the concept of Māl from an Islamic economic perspective, see Monzer Kahf, (undated), “The Principle of Social-economic Justice in the Contemporary Fiqh of Zakāh”, Available on www.kahf.net
5. Sūrah al-Baqarah, verse 267. The word “Amwāl” was also used in connotation to items subject to zakāh in sūrah al-Tawba, verse 103.
6. For more discussion on items subject to zakāh, zakāh rates, items exempt from zakāh, new forms of wealth and income, see ibid, pp. 19-34.
7. A number of scholarly views have been developed about the criteria for zakatability for newly raised forms of wealth. There remain however, some controversies on the conditions of the zakatability of some of these items. See Abul Hasan Sadeq (2002).
8. Out of concern for social justice, some scholars (e.g. al Qaradawi) see that a tax rate equivalent to that of zakāh should also be levied on non-Muslims for which proceeds should be distributed amongst the poor of the non-Muslims. See Monzer Kahf (undated), “Introduction to the Study of Economics of Zakāh”.
9. For state-owned property, the logic behind the exclusion is that a nation's resources, though effectively owned by the community, the State being a separate legal entity in command of public resources by virtue of law, the so-called “sovereign right” has the right to devote whatever resources it sees in the public good. For instance, the State has right to allocate additional funds from the public resources for the benefit of the poor. An imposition of zakāh rate on public resources would have restricted the State's ability to devote for the benefit of the poor more resources than what would otherwise be the zakāh proceeds. Accordingly, any further appropriation by the State of public resources for the benefit of the poor would be interpreted as a violation of the rules of zakāh. As for the awqāf assets, the exclusion from items subject to zakāh was because of the principle of respectability of private ownership. Awqāf assets, in effect, belong to no one besides that awqāf assets are held in trust for already designated objectives, which are mostly the same as those intended to be achieved by zakāh, i.e. helping the poor.
10. Sūrah al-Tawba, verse 60.

11. Scholars agree on a number of exclusions from receipt of zakāh. These include non-Muslims, able-bodied people who refuse to work, one's family and relatives whose provision for their financial needs is the responsibility of the zakāh payer. For more about this point and categories of zakāh recipients, see ibid.
12. For more discussion on differences between zakat and tax see Nur Barizah, A. B. "Zakat and Taxation: A conceptual comparison." Journal of Islam and International Affairs 2, no. 3(2008): 91-103.
13. Quoted from Abul Hasan Sadeq "A survey of the Institution of Zakāh: Issues, Theories and Administration." Discussion Paper no. 11, Islamic Development Bank, Islamic Research and Training Institute, Jeddah, Saudi Arabia (2002), p. 5.
14. Ibid., p. 20.
15. Ibid., p. 20.
16. Ibid., p. 21.
17. Ibid., p. 22.
18. This part is drawn from Monzer Kahf (2006), "The Performance of the Institution of Zakāh in Theory and Practice", and Monzer Kahf (undated), "Introduction to the Study of Economics of Zakāh" both are available on www.kahf.net.
19. This role of the state in collecting and distributing zakāh continued until the fall of the Ottoman Empire after the First World War. See Monzer Kahf (undated), "Introduction to the Study of Economics of Zakāh", p. 9.
20. Pakistan followed a state enforceable system of collection and distribution of zakāh from 1981 until early 2000 when a supreme court ruled that the obligation is not constitutional.

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