

The Impact of *Zakāh* and *Ribā* on Society: A Comparative Study

MUHAMMAD ZAID MALIK*

Abstract

This paper discusses how zakāh and ribā affect society both economically and spiritually. The former elevates the financial level of its members by helping them circulate wealth amongst the whole society, while the latter concentrates wealth amongst the rich. Using the descriptive and deductive methods and evidence from the Qurʾān and the Prophetic traditions, the article argues that those who pay zakāh are not left with the promise of reward in the hereafter alone, rather they are blessed with the abundance of wealth in this world also. Conversely, those who are involved in ribā-based transactions are punished in this world before being punished in the hereafter.

Keywords

zakāh, ribā, societal impact, sharīʿah.

Introduction

The institution of *zakāh* is the cornerstone of the Islamic economic system. The Qurʾān emphasizes *zakāh* as a critical component of socioeconomic justice and works to ensure an equitable distribution of wealth by creating a safety net for needy members of society. Both the sources and disbursement categories of *zakāh* are specified in Islamic law. The Qurʾān identifies eight categories of disbursement, each of which carries clear social benefits. One positive economic effect of *zakāh* is an increase in the money supply and a consequent increase in the demand for goods and services. *Zakāh* also provides debt relief and enhances price stability. If accumulated in times of prosperity, *zakāh* funds can aid society through

* Assistant Professor, Translation Centre, King Saud University, Riyadh, Kingdom of Saudi Arabia.

times of depression. Though *zakāh* has widely fallen out of use in modern times, it can have a great economic impact if properly re-established.¹

Conversely, *ribā* or usury is one of the gravest problems faced in the current period. There is a need to return to the revelation of harmony and human reason in contemporary economic thinking. Both socialist and capitalist economic systems have failed to ensure economic justice that serves society. In particular, capitalism is currently causing a terrifying scenario by making the rich richer and the poor poorer. It has been remarked that the Islamic economic system represents a middle ground between socialism and capitalism.²

In Islamic terminology, *zakāh* means “worshipping Allah through spending the legally obligatory portion from a specific wealth to a certain group or specific institution.”³ According to Abū ’l-A’lā Maudūdī, *zakāh* denotes purity and cleanliness, as allocating one’s wealth to the needy and the poor purifies it as well as the individual’s soul.⁴ *Zakāh* is one of the five pillars of faith in Islam. It is a unique, spiritually charged filtering device primarily designed to cleanse one’s possession or wealth necessary to protect the owners of wealth against spiritual poverty.⁵ Though the payment of *zakāh* apparently decreases money, in a broader sense, it causes the circulation of wealth, which results in its multiplication and thus involves more and more people in its benefits.⁶ Many Qur’ānic verses reveal the mandatory status of *zakāh*.⁷ The commandment for *zakāh* is accompanied by the commandment for prayer (*ṣalāh*) in 28 places, confirming the strong connection between the two. Many Prophetic traditions also made several references to the obligation of paying *zakāh*. For instance, the Prophet (peace be on him) sent Mu’ādh b. Jabal to Yemen and said, “Instruct them that verily Allah has made *zakāh* obligatory for

¹ Marghoob A. Quraishi, “The Institution of *Zakat* and Its Economic Impact on Society,” in *Proceedings of the Second Harvard University Forum on Islamic Finance: Islamic Finance into the 21st Century* (Cambridge, MA: Center for Middle Eastern Studies, Harvard University, 1999), 77-81, <https://ibir-api.hbku.edu.qa/sites/default/files/2019-10/The-Institution-of-Zakat-and-Its-Economic-Impact-on-Society.pdf>.

² Nico P. Swartz, “The Prohibition of Usury (*Ribā*) A Moral-Ethical Perspective of Islamic Financial and Banking Law: A Comparative Study between the Islamic and the Conventional Model,” *Jurnal Syariah* 17, no. 2 (2009): 409-30.

³ *Al-Mawsū’ah al-Fiqhiyyah*, <http://www.dorar.net/enc/feqhia/2157>.

⁴ Syed Abul A’la Maududi, *Economic System of Islam*, ed. Khurshid Ahmad, trans. Riaz Husain (Lahore: Islamic Publications, 1984), 216.

⁵ Quraishi, “Institution of *Zakat*,” xx.

⁶ Muhammad Abdullah and Abdul Quddus Suhaib, “The Impact of *Zakat* on Social Life of Muslim Society,” *Pakistan Journal of Islamic Research* 8 (2011): 85-91.

⁷ Qur’ān 2:43; 2:83; 2:110.

them which would be collected from the wealthy amongst them and returned to their needy ones, and when they submit to it, then collect it from them and avoid (the temptation) of selecting the best (items) of their riches.”⁸ The Prophet also warned in one instance that those who refuse to pay *zakāh* a part of their property could be confiscated as punishment.⁹ The Companions of the Prophet were also in agreement that all those who refused to pay *zakāh* or recognize its obligation should be fought, as was done by the first Caliph Abū Bakr.¹⁰

Ribā means growth and is traditionally viewed as a predetermined, fixed and time-related excess over and above the principal of a loan (or debt created in lieu of a credit transaction). A distinction is always maintained between *ribā 'l-nasī'ah* (*ribā* in loans) and *ribā 'l-faḍl* (*ribā* in trading).¹¹ *Ribā* is considered unlawful and sinful in the Qur'ān,¹² Prophetic traditions,¹³ and scholarly consensus (*ijmā'*).¹⁴

The Wisdom behind the Status of *Zakāh* and *Ribā*

Islam provides solutions to social injustice and poverty. The institution of *zakāh* ensures that the bonds of the community get stronger, especially when it comes to the economic and social welfare of the people. Islam requires every Muslim who has resources over a certain basic amount to pay *zakāh* as a given proportion of his or her net worth or agricultural output for the benefit of the destitute. This is strongly backed by the idea that all resources are a trust from Allah and must be used for the well-being of all human beings who belong to the one human family of the one Creator.¹⁵

⁸ Muslim b. Ḥajjāj, *Ṣaḥīḥ*, kitāb al-īmān, bāb al-du'ā' ilā 'l-shahādatayn wa sharā'i' al-Islām.

⁹ Aḥmad b. Ḥanbal, *Musnad*, *ḥadīth* No. 20016.

¹⁰ Aḥmad b. Shu'ayb al-Nasā'ī, *Sunan*, kitab taḥrīm al-dam, bāb.

¹¹ Sayyid Tahir et al., *III E's Blueprint of Islamic Financial System including Elimination of Riba: Report of the III E Workshop on Islamization of the Financial System (May-June 1997)* (Islamabad: International Institute of Islamic Economics, International Islamic University, Islamabad, 1997), 37.

¹² Qur'ān 2:275-76.

¹³ Muḥammad b. Ismā'īl al-Bukhārī, *Ṣaḥīḥ*, kitāb al-īmān, bāb “fa in tābū wa aqāmū 'l-ṣalāh wa ātū 'l-zakāh fa khallū sabīlahum;” Muslim, *Ṣaḥīḥ*, kitāb al-īmān, bāb al-amr bi qitāl al-nās. . . .

¹⁴ Ḥamūd b. 'Abd Allāh al-Tuwayjrī, *al-Ṣārim al-Battār li 'l-Ijhāz 'alā Man Khālaḥ al-Kitāb wa 'l-Sunnāh wa 'l-Ijmā' wa 'l-Āthār* (Riyadh: General Secretariat of the Committees for Scientific Research, Legal Opinions, Da'wah, and Guidance, 1988).

¹⁵ Muhammad Umer Chapra, *Islam and Economic Development* (Islamabad: Islamic Research Institute, 1993), 82.

Allah prohibited *ribā* to save humans from exploiting each other, as it contains harms that affect the whole society. Psychologically, *ribā* creates selfishness in the hearts of people who deal with it. They only think of their benefit, keeping aside the spirit of sacrifice and selflessness. They become slaves to their wealth. *Ribā* also creates subjugation and humiliation amongst debtors and repudiates all good values that should flourish among the individuals and groups of society.

At the level of society, *ribā* creates enmity, envy, jealousy, resentment, and feelings of disgust among individuals in society. The result of *ribā* is that human society turns into a jungle where only the strong can survive. It divides society into two classes: an elite class living a luxurious life and another that lives in poverty and destitution. This inevitably causes tension, as *ribā* causes wealth to remain in the hands of a few. This is the cause of disaster for many nations and leads to inequity, injustice, oppression, and exploitation. At the international level, rich nations utilize *ribā* to impose economic colonialism on the poorer nations when they fail to pay back the interest on high levels of debt.

The classical jurist Fakhr al-Dīn al-Rāzī summarizes the dangers of *ribā* through the following points: First, *ribā* implicates taking others' money without any consideration because if someone sells one dirham for two dirhams, he earns one dirham without any consideration which is unlawful (*ḥarām*). Second, Allah prohibited *ribā* because it stops people from taking an active part in earning their livelihoods. It is seen that when a rich man enters a *ribā* transaction and earns extra dirhams, he shows laziness in earning his livelihood through trades, skills, industries, and other constructive fields. Third, the *ribā*-based transaction is prohibited because it leads to the discontinuation of virtue among the people, i.e., lawful lending to others (*qarḍ ḥasan*). Fourth, usually, the lender is richer and the debtor is poorer. Allowing a *ribā*-based transaction enables the richer to take extra money from the poorer, which is unethical.¹⁶

The *Sharī'ah*-based Perspective of Economic Justice

Zakāh is an integral part of the Islamic economic system. Allah commands Muslims to pay *zakāh* on their total wealth above a minimum required wealth (*niṣāb*) to the poor for society's social and economic benefit. Several Qur'ānic verses emphasize that all resources belong to Allah and that they must be used to satisfy the basic needs of all those who, for no

¹⁶ Fakhr al-Din al-Rāzī, *al-Tafsīr al-Kabīr* (Beirut: Dār al-Fikr, 1981), 3:74.

fault of their own, cannot afford the necessities of life in a humane and dignified manner.¹⁷

Likewise, the Prophet Muḥammad (peace be on him) stated that “a man is not a believer who fills his stomach while his neighbour is hungry”¹⁸ and that “a locality where a person has to sleep hungry deprives itself of God’s protection.”¹⁹ The fourth caliph ‘Alī b. Abī Ṭālib expanded on this idea by saying that “God has made it obligatory upon the rich to pay out of their wealth whatever is sufficient for the poor. If the poor starve, go unclad, or suffer difficulties, it is because the rich have deprived them. Hence it is proper for God, the Almighty, to bring them to account and to punish them.”²⁰

The Impact of *Zakāh* on Society

Zakāh is a cornerstone of the values that govern Islamic economics. Being directional and normative, *zakāh* defines the norms of economic activity and, through its effects on economic variables, determines the direction in which the economy should move. On the revenue side, it specifies how revenue is to be raised and who pays it. On the expenditure side, it sets forth the uses (recipients) of the revenue. Like any modern budget, it describes the economic order that it attempts to establish and express the ideals and aspirations of society. From a microeconomic perspective, *zakāh* is a mechanism for self-help. Everyone contributes to the need for fulfilment and the general well-being of society according to one’s ability. From a macroeconomic perspective, similar to the inheritance laws in Islam, the institution of *zakāh* is designed to deal with the distribution of wealth in society. Being a redistributive fiscal policy based on wealth and not income, it provides insurance against unjust alliances between economic monopolies and political power, which lead to social imbalance, exploitation, and eventually anarchy.²¹ *Zakāh* guards against the concentration of wealth in the hands of a few persons, families, or even the state.

¹⁷ Qur’ān 57:7; 6:141; 9:60.

¹⁸ Muḥammad b. Ismā’īl al-Bukhārī, *al-Adab al-Mufrad* (Beirut: Dār al-Kutub al-‘Ilmiyyah, 1971).

¹⁹ Muḥammad b. ‘Abd Allāh al-Nīsābūrī, *al-Mustadrak* (Beirut: Dār al-Risālah al-‘Ālamiyyah, 1985), 2:12.

²⁰ Al-Qāsim b. Sallām, *Kitāb al-Amwāl* (Cairo: Dār al-Hady al-Sawiyy, 2007), 784.

²¹ George Knapf, *The Struggle for World Power: Revolution and Counter-Revolution* (London: Plain Speaker Publishing Company, 1975), 113.

To better understand the institution of *zakāh* as an economic safety net for society, one may look to history and see how poverty vanished after the implementation of the *zakāh* scheme. The economic factors behind this achievement were as follows:

First, when transferred from the rich to the poor, obligatory charity enables the poor to make necessary purchases in the market, increasing their purchasing power. The demand for consumer goods is increased and as a result, the supply is also increased. This gives a great push forward to the national economy.

Second, *zakāh* is a system that guarantees help to paupers, insolvents, and indigents. Anyone who has borrowed money for investment and is unable to pay it back, the debt may be paid off by *zakāh* as out of the eight heads of payment of *zakāh* are “those who are under debt.” Thus, *zakāh* gives security both to the debtor and the creditor. It guarantees help to the debtor by paying the debt on his behalf and also guarantees the creditor that his money is secured and will return to him. This gives a great impetus to invest and promote economic activity.

Third, the law of diminishing returns outlines the limits of economic activity. This limit is immediately increased and pushed further after the payment of *zakāh* to the poor. *Zakāh* is a tangible transfer of wealth from the rich to the poor. This is a right of the poor that has to be returned and given back to them. The word “return” is very important in the following Prophetic tradition: “Allah has made *zakāh* an obligatory charity which is taken from the rich and returned to the poor persons of the same society.”²² It is the poor’s due which has to be returned and given back to them. It is not a favour to them; it is their right. This transfer of wealth to the poor helps a lot in the fair distribution of wealth in society.

Fourth, *zakāh* is mostly given to those who are jobless due to illness or other reasons. An ill person, after getting *zakāh*, can receive proper treatment and enable himself for any job. A poor jobless person, after getting *zakāh*, can start a small business or any other work with a small amount of money. Thus, *zakāh* enables jobless persons to find some work or business for themselves.

Fifth, the payment of *zakāh* cleans the hearts of the rich from the love of wealth and makes them learn generosity and how to help the poor.

Sixth, *zakāh* also inculcates in the rich a sense of responsibility to their poor relatives, neighbours, and society at large. In return, *zakāh* cleans the hearts of the poor from hatred and ill feelings against the rich.

²² Al-Bukhārī, *Ṣaḥīḥ*, kitāb al-zakāh, bāb wujūb al-zakāh; Muslim, *Ṣaḥīḥ*, kitāb al-īmān, bāb al-du‘ā’ ilā ‘l-shahādatayn wa sharā’i‘ al-Islām.

Seventh, *zakāh* improves the situation of law and order. Crimes which occur due to hatred and ill-will among the poor are minimized.

Eighth, the amount of *zakāh* money which is given by the rich to the poor goes back to the rich again after discharging its duty to the poor. This could be understood from the following money circle. If one assumes that the property is of two kinds:

1. Property that is invested.
2. Property which can not be invested due to any reason or even due to the law of diminishing return.

The latter kind of property is a curse and Islam does not encourage its existence. It is the dead property that does not run in the economic system of society. It is given on debt to earn usury and interest and used extravagantly in all kinds of sins, crimes, and illegal actions. When the payment of *zākah* is made out of this dead property every year, a great chunk of this money is removed and transferred to the poor. The moment this money comes into the hands of the poor, it starts moving fast in the market. This money can be invested or used for the necessities of life. The poor will purchase their necessities of life from the rich, the businessmen. This means that *zakāh* money will be utilized by the poor but it must go back to the rich again, from whom the poor will purchase their necessities. Now the question is whether this money will go back to the rich and become part of the dead property again. Not at all. This property will go into the shops of the rich. It will become alive and part of the invested property. Here the literal meanings of *zakāh* as “the source of cleaning and making chaste” can be well appreciated. The Qur’ān corroborates this phenomenon by stating, “Take alms from their wealth to purify them and sanctify them with it.”²³

The Impact of *Ribā* on Society

The deep-rooted involvement of *ribā* in contemporary societies has effects that are much more far-reaching than the most obvious ones. Interest-based societies have bred a gulf that forms an ever-growing divide between the rich and the poor classes, with the rich growing richer and the poor growing poorer. This notion does not require significant observation. The poor man who takes a loan based on interest is already facing a deficit, and by the time he returns it, assuming that he has taken the loan for consumption as opposed to investment, he will have no more

²³ Qur’ān 9:103.

than what he had started with. Under the most likely circumstance, if the debtor had failed to save the given amount earlier, probably, he would not be able to do the same later on. As a result, he must borrow some more money to repay even more money than what he originally had borrowed, and so, the cycle of debt continues, leaving the creditors with more money than they had started with, and the debtors with even less.

However, some of the highly counter-productive effects of interest-based economic systems are barely spoken of outside of the community of economists, not the least of which is the evident fall in national GDP as a result of high-interest rates. This is because high-interest rates lead to a drop in investments and start-up entrepreneurship, which are the backbone of a country's income. This may be broken down into the result of two parallel attitudes, concerning potential investors who have the capital to invest, and those who do not. When an individual has a sizable amount of capital not in use, he/she has three possible options concerning it 1) to invest it in a business 2) give it as a loan; or 3) save it.

Given that most countries are facing some form of stable or unstable inflation, keeping money saved in a current account, where its real value and purchasing power will slowly wither away, does not seem to be a wise choice in any case. What is left are options 1 and 2. Giving the money to an individual or keeping it saved in a bank on interest (especially at high rates) ensures the individual a steady and reliable increase in his wealth, such that it compensates for the fall in value due to inflation as well as being a source of income and profit. On the other hand, investing does not seem to be as attractive, since it involves much more effort, and there is also no guarantee as to the amount of profit that would be made. All the individual knows is that there may very well be a loss. Even if there is profit, the potential profit from the business may not be as much as the interest rates promise. As a result, the wealthy class with the ability to invest will refrain from doing so.

On the other hand, potential investors or entrepreneurs who do not hold sufficient capital to engage in business will require to take a loan before investing. However, in the face of high-interest rates, they will feel more hesitant to do so, and thus, a lower proportion of possible investors will actually invest. Both of these factors lead to a decrease in investment, leading to a fall in GDP immensely, especially in countries of the third world that are already suffering from deficits in their balance of payments.

After understanding the impact of *zakāh* on society and particularly on the property of rich people, it is easy to understand the impact of *ribā*. In the case of *zakāh*, the dead property is transferred to the poor. It

becomes alive immediately and gives a great impetus to the national economy. Then, the same money goes back to the rich again and adds up to the live property. In the case of *ribā*, however, the movement of property is in the reverse direction. The live property of the poor is low and is transferred to the rich in usury, which adds up to their dead property. The dead property is maximized and the live property is minimized. It gives a great setback to the national economy. The rich become richer and the poor, poorer. *Zakāh* maximizes the live property while usury does the opposite. *Zakāh* creates love and fellow feelings while usury creates a sense of exploitation, enmity, and hatred.

Duty of the State to Establish the Institution of *Zakāh*

Due to a variety of eroding factors, the institution of *zakāh*, which once provided an economic safety net to society, has lost its meaning. Today, it has an *ad hoc* and irregular function reduced to almost a ritual practised individually by a small number of Muslims.²⁴ Hence, Muslims need to re-establish the institution of *zakāh* and abolish the institution of *ribā*. To do so, a Muslim state must step in and undertake the task of collecting and distributing *zakāh* money. Muslims have the model of the Prophet (peace be on him), who appointed the competent Companions over the collection of *zakāh*, and on many occasions, he himself distributed *zakāh* money. After him, the four rightly guided caliphs did the same, making *zakāh* a state-run institute. In this context, one may recall that in Medina and Basra during the caliphates of ‘Umar b. al-Khaṭṭāb and ‘Umar b. ‘Abd al-‘Azīz, there were years when there was a surplus in the *zakāh* funds.²⁵ The institution of *zakāh*, when fully operational, would become a fountain of economic harmony and contentment. The Muslim state should get serious on the issue of *zakāh* collection, and appoint honest and capable people for this task. It is not the duty of the conventional banks, whose transactions are based on *ribā*, to take care of the *zakāh* system. Their main objective is to promote *ribā*, so why would they think of improving the system of *zakāh*? The state has to undertake this task in its own hands. There is a saying attributed to the second and third caliphs Umar b. al-Khaṭṭāb and ‘Uthmān b. ‘Affān: “Allah stops people from sinning through

²⁴ Muhammad Ahmad Sabzwari, *A Study of Zakat and Ushr with Special Reference to Pakistan* (n.p.: Industries Printing Press, 1979). The results of this study done among middle-class educated Muslims in a subdivision of Karachi showed that while almost 95% had heard of *zakāh*, fewer than 25% had even heard of *ushr* (*zakāh* on produce and mineral extraction).

²⁵ Sayyid Abdul Qadir Husaini, *Arab Administration* (Lahore: Ashraf Publications, 1961).

the power of the state more than He stops them through the injunctions of the Qur'ān.”²⁶

Conclusion

Today, the world is interested in rediscovering Islamic finance, a welcome sign of relief for a monetarily beleaguered world economy. The interest-based economic system, coupled with currency speculation, has to a large extent contributed to the recent near-collapse of many advanced economies like the USA and Europe, not to speak of the hyper-recession of the 1930s. Despite their tight grip over the world monetary system, international agencies like the IMF and the Paris Club have failed to achieve international monetary stability. It is the responsibility of Muslim societies to effectively abide by the tenets of Islam concerning *zakāh* and *ribā*.

* * *

²⁶ Umar b. Shabah, *Ta'rīkh al-Madīnah* (Beirut: Dār al-Kutub al-'Ilmiyyah, 1995), 3:988.