Conceptualizing Poverty in Capitalism and Islam

Dr. Zahoor Khan
Dr. Karim Ullah

Abstract:
This study investigates poverty in Capitalism and Islam in terms of both; as an economic ism and as a living ideology. Capitalism as a living ideology, based on its’ philosophical foundations, eventually yields class conflict, deprivation, discrimination and accumulation of wealth in the hands of a few capitalists. Capitalism as an economic ism has become unpopular in the world not only because of socioeconomic injustices but also due to environmental degradation and losses in biodiversity. Theoretical analysis reveals that the built in mechanism (Demand-Supply) of capitalism is incapable to resolve the issue of poverty effectively. Poverty in Islamic context is a pure economic concept which does not affect the social class system and social values of humans. Furthermore, the measurement concept of poverty in Islam is different from the Capitalism. Poverty has been measured based on the minimum prescribed amount (Nisab) postulated by Islam. Various categories of the poor have been identified while benchmarking the minimum prescribed amount. Keeping into consideration the philosophical foundation of the Capitalism and Islamic Economic System (IES) the study reveals that IES has more potential to resolve the issue of poverty on more fair and equitable basis than the Capitalism.

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1. Introduction:
To tackle the issue of poverty has remained a massive challenge in the known history of human civilization for all global economic isms of the world. Each economic ism has its own strategies to address this issue. For example Capitalism conceptualizes poverty as deficiency/lacking of access to financial capital and thus considers the provision of capital, for those who are deficient of
such resources, as an effective solution of poverty. Thus the roots of microfinancing, to facilitate the poor by providing small credit for productive utilization and self-employment, can be traced back from philosophical concern of conceptualizing poverty as lacking of access to financial capital. According to this concept poor are assumed to be productive, capable of running their own small businesses and creditworthy to payback their loans. This idea initiated the extension of microcredit to the poor at different formal and informal levels. The declaration of the year ‘2005’ as microfinance by United Nations and the award of peace Nobel prize in ‘2006’ to Dr. Muhammad Yunus and Grameen bank jointly further accelerated the speed of microfinance as a belief- magical solution of poverty- across the countries. International donor community, especially US government and World Bank, loved the idea and supported it wholeheartedly. The idea took off globally, and microfinance became a hugely important anti-poverty policy. Many subsequent awards offered, including Nobel Peace Prize in 2006 and thus Yunus and Grameen bank widely recognized as major pioneers in poverty alleviation and development.

Capitalism is generally considered to be a philosophy of economic systems that favors private ownership of the means of production, creation of goods or services for profit or income by individuals or corporations, competitive markets, voluntary exchange, wage labor, capital accumulation, and finance. There may be two possible solutions of the issue of poverty in Capitalism. First, each individual economic agent has monetary incentives to work and perform various economic activities. Thus monetary incentives stimulate the economic agents towards the performance of economic activities. This may be considered as an indirect solution of poverty in context of Capitalism. Second, individuals possess ownership rights. They can possess various productive resources and have the right to consume and further invest these resources to accumulate more wealth. At this stage, each economic agent (Consumers and Producers) is assumed to be rational to optimally utilize their resources in their best interests. Thus, this behavior works as an automatic stabilizer in the economy to resolve the economic issues including the issue of poverty of all masses. The in-depth analysis of the system reveals that both the possible solutions of the issue of poverty are fictitious. The first solution is viable if fortunately all people become part of the labor force in an economy. This solution does not take into consideration children, housewives, old men and women, insane, and permanently disable people that how they can access to the basic facilities (food, shelter, hospital etc.). The second solution is based on the assumption that all the people of the economy possess some productive resources, which is unrealistic. This assumption may be questioned in many ways for example from where the people will get the economic resources? What will be the way of acquisition of these resources? If all people cannot participate as labor force, then how they will acquire economic resources etc. One other possible way is the intervention of government, to take some steps towards the solutions of the issue. This method is feasible as compared to the earlier methods but unfortunately, this method is not very effective to address the issue because
of many hurdles. Poverty is a multidimensional phenomenon which cannot be effectively addressed only with the help of the government. This issue requires multidimensional measures at the micro, meso and macro levels.

2. **The Nature of Poverty in Capitalism:**

In practice, poverty is considered as a social issue in Capitalism. The society, in capitalism is divided on the basis of ‘have’ and ‘have not’. The upper class, ‘the capitalists’ control the entire economy on the basis of their capital while the ‘worker class’ cannot own capital irrespective of their efforts in the process of production. Thus capitalists accumulate excessive wealth on the basis of their capital. This phenomenon naturally intensifies the earning gap between the two classes. The ultimate outcome appears in the form of macroeconomic evils such as income inequality, poverty, possession of wealth in the hands of capitalists and hence resulting social problems.

Poverty as a narrow concept is considered as deprivation in terms of financial resources which often misleads towards the sensitivity of this issue. What is critical? It is the issue of poverty of opportunity. Poverty of opportunity is a multidimensional concept, embarrassing lack of education and health, lack of economic assets, social exclusion and political marginalization. It has focused our attention on the symptoms, not the causes. To ignore the poor upstream and to count them endlessly downstream is merely an intellectual luxury. Poverty gives rise to many social and economic issues. Some important of them may be in the form of income disparity, class conflict, and deprivation. The philosophical foundation of Capitalism can help to understand whether the system has the required potential to resolve the issue of poverty effectively or otherwise. Capitalism is based on three philosophical pillars. i. Materialism ii. Individualism iii. Hedonism. Capitalism as a living ideology believes in a materialistic world view. According to this philosophy all human needs and desires are subject to material satisfaction i.e whatever is needed/desired are satisfied in this material world because there is no concept of the world hereafter. So, unlike an Islamic consumer, a capitalist consumer has to always conscious about their material utility and will therefore, try to spend all their money on material commodities only.

The second important element of Capitalism’s philosophical foundation is “individualism”. Individualism refers to independent behavior of economic agents to accomplish their economic goals. According to this concept all people’s interests are independent from each other’s. Each individual has to work for their own personal goals. Thus, the resulting outcome of this behavior will be in the form greed, unconsciousness about other’s rights, immorality in business practices, weakness of social bond etc.

The last foundation of Capitalism, as a living ideology is ‘Hedonism’. Hedonism refers to a philosophy where one’s become pleasure seeker and ‘self-centered’ while to accomplish various goals. Hedonism is the logical consequence of ‘Individualism’. Looking into the philosophical foundations and ideological structure of capitalism it seems that the capitalism is a bias byproduct
of human reason which promotes individualisms, self-satisfaction as a supreme priority, greed, and unconsciousness about other’s rights and unconsciousness about the aggregate welfare of the society. In the light of these logical consequences resulting from the Capitalism, the system will ultimately worse off the poor and marginalized people, followed by the increasing gap between the poor and rich and thus the extreme level of living standards and provision of many social and sub-economic issues. There are two popular approaches to resolve poverty at macro and micro levels. Following is the detail;

3.1. **The Idea of Trickle Down as a Solution of Macro Economic Evils:**

Trickle Down is an economic theory which is an outcome of capitalist thinking. It states that investing money in companies and giving them tax breaks is the best way to stimulate the economy. This theory suggests the provision of facilities to the capitalists which will eventually create employment opportunities for the lower bottom income groups. However, today corporations are making record profits for example the Dow Jones is record highs and despite these facts, job growth remains low, proving there is little to no correlation between incomes at the top and job growth in the middle and bottom. If that were the case, based on this theory we should also be experiencing record employment. I must mention the statement of the Swami Beyandananda “The trickle-down theory: That is when all the wealth is at the top and some of it trickle-down to the bottom, which is why the people at the bottom are called peons”.

3.2 **Microfinance as an Anti-Poverty Tool:**

Among the many initiatives, Microfinance is considered one of the strongest instruments to effectively alleviate the level of poverty and improve the socioeconomic conditions of the poor and marginalized segments of a community. Microfinance institutions have received growing attention at both national and international levels during the last two decades, particularly after the award of noble prize to Muhammad Yunas. The primary contribution of Muhammad Yunas is the provision of microfinance facility for non-bankable poor on terms and conditions different from formal banking practices. Microfinance, a practice involving the provision of small loans to people without conventional collateral and other financial services such as micro savings and micro insurance – has received huge attention over the past 30 years. Having access to financial services may be taken for granted by people who have decent work with decent pay. However, for the 1.4 billion people who live on less than $1.25 a day access to financial services is a luxury that they cannot even dream of. According to the Asian Development Bank (ADB), in the Asian and Pacific region alone, over 900 million people have consumption levels below $1 a day. Microfinance programs include management of microcredit, savings, insurance and provision of other financial services as well as necessary trainings to group members, with the sole purpose to promote small scale and self-sustainable businesses. In most of the developing countries, financing small and micro enterprise is considered a “new paradigm” for bringing about development and eradicating absolute level of poverty. Small enterprises have received growing
attention at both national and international levels during the last decade. A number of programs have been launched in different part of the world by national and International organizations to empower and protect the poor. These programs are mostly in the form of microfinance Institutions which have two major objectives;

i. The provision of credit to the poor and economically marginalized segments.

ii. Self-Sustainability and efficiency; to be able to provide the services at constant and long term basis.

Unfortunately, the poor households are typically excluded from formal financial services due to the high interest rates, collateral requirements, complicated application procedures, and a great deal of red tape on admissions processing. However, several microfinance institutions operating with different innovative microfinancing models show that to the lending to poor without collateral is feasible and that keeping high repayment rates is possible if microfinance institutions are adequately designed.

Unfortunately, a number of rigorous studies conducted by prominent aid agencies, microfinance institutions and banks reveal that microfinance products do not work successfully in alleviating the poverty level of the poor and extreme poor classes. There are many stories of borrowers who have been adversely affected by microcredit experiencing credit dependency and cyclical debt.

4 The Islamic Concept of Poverty

The Islamic concept of poverty is quite different from the concept of poverty in Capitalism. Poverty is a pure economic phenomenon which may lead to sub economic and social issues at micro and macro levels. The provision of poverty does not necessarily mean to divide people and creates social classes on the basis of this phenomenon.

There is the possibility of poverty even in a pure Islamic society/ state (The presence of poverty has been recorded at the time of the Holy Prophet and great Khulafah-e-Rashideen). In context of Islam, poverty is a test; Allah (S.W.T) wants to test his creature. Thus the deficiency or abundance of financial resources is one of the instruments on the basis of which we are being tested.

We have distributed their livelihood among them in worldly life, and have raised some above others in the matter of social degrees, so that some of them may utilize the services of others in their work.15

In the context of Shariah, human beings are not accredited on the basis of wealth they accumulated; rather they are evaluated by Allah consciousness and their positive contributions towards the society (Al-Quran). This is the only criterion on the basis of which humans can assign maximum weights to their good deeds and can stabilize their position in front of Allah (S.W.T).16

The most honorable people among you in the sight of Allah is he who has "Attaqwa" (i.e. Allah's fear).

Poverty is an issue of immediate concern in an Islamic context. It should be addressed on a priority basis at micro and macro levels. Islam focuses to alleviate the causes of poverty by providing socio-economic and political justice,
and equity based institutional framework. Islam encourages its followers to become earning hands not because of monetary incentives but to transfer the skills for the optimal utilization of all goods and services. To work according to optimal capacity and sharing of productive knowledge is the religious responsibility of each Muslim man and woman. These restrictions necessitate that there will be less possibility of poverty in an Islamic economy than any other economy of the world. \(^\text{17}\)

Islam approves the economic progress of man, and considers "lawful or righteous livelihood "an obligation next to the obligations" that is to say, an obligation of the secondary order. Notwithstanding all this, it is no less a truth that it does not consider "economic activity" to be the basic problem of man, nor does it view economic progress as the be-all and be-end of human life. Islam recognizes poverty as a multidimensional phenomenon and therefore, suggests multidimensional measures to prevent the causes of poverty at one hand and alleviate the existing poverty level on the other hand. At the individual level, it is the religious obligation of each man to work and become self-sufficient while earning his livelihood. This is not enough, individuals are responsible for the livelihood of their immediate family members (Children, wife, father, mother, etc.) as well. This obligation intensifies the sense of responsibility, increases access to basic facilities such as and shelter, food, education, access to hospital and reduce the vulnerability of poverty. At the macro level, the provision of fundamental economic rights (food, shelter, education, access to hospital) to the poor and destitute is the State’s responsibility.

5. **Instruments of Fair and Just Distribution in Islam:**

A very brief description of the instruments of just and fair distribution in Islam is given as;

5.1 **Zakat:**

The first and the widest of these heads is Zakat. The Holy Qur’an has mentioned this obligation in numerous places along with Salah (the daily prayers). Every person who possesses silver or gold or cattle or merchandise in a certain prescribed quantity and above it is under the obligation to spend, after the passage of one year, a certain part of his possessions on other needy persons. And with regard to the man who does not fulfill this obligation, the Holy Qur’an has this to say:

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\text{"Those who treasure up gold and silver, and do not spend them in the way of Allah - give them tidings of painful chastisement, the day this (wealth) shall be heated in the fire of Hell, and their foreheads, their sides, and their backs shall be branded with it. (It will be said to them,) This is what you had treasured up for yourselves; now taste of what you were treasuring."}^{18}
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Furthermore, the Holy Qur’an has mentioned eight beneficiaries of Zakat. By prescribing these beneficiaries, the Holy Qur’an has opened the way to the widest possible circulation of wealth. The holy Qur’an not mentioned the beneficiaries but their chronological order as well. Thus the expenditure of Zakat
starts from the poor and destitute and common factor among these items of expenditure for Zakat which entitles a person to receive it is “poverty” and “neediness”. And this head (Zakat) is chiefly meant for the eradication of poverty.

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

5.2 **Ushr (Zakat on Land Produce):**

Ushr is in fact a form of Zakat which is levied on land produce. But, since human labor is comparatively less involved in this kind of production, the rate of the levy here is 10%, or in some cases 20% instead of 2.5%. This levy is due only on the produce of those lands which, according to the expositions of the Fiqh, come under the special category of ‘Ushri lands. Usher is spent on the same items as Zakat.

“In their wealth there is a known right for those who ask for it and those who have need for it”. In certain verses, this right has been defined as the right of Allah. For example, this verse in connection with harvests: “And pay what is rightfully due to Him on the day of harvesting”.

(C) **Kaffarat (Compensation Money):**

Islam has prescribed another regular mode of transmitting wealth to hundreds of individuals in a society - and that is the mode of “Kaffarat” (Compensation money). If someone breaks his fast during Ramadan without a proper excuse, or kills another Muslim unintentionally, a vow after having taken it, he has been enjoined to spend (compulsorily in some cases, and voluntarily in others) some of his wealth over the needy and the poor. This can be done in the form of cash, and also in the form of food or clothes.

5.3 **Sadaqat-Ul-Fitr:**

It has been made compulsory for those whose possessions cross a prescribe level. On the occasion of the ‘Id-ul-Fitr (The celebration after the fasting month) they should, before going to the prayers, distribute the prescribed amount among the needy, the poor, orphans and widows. Everyone has to pay this sum not only on his or her own behalf, but even on behalf of one’s minor children. So, the sphere of this obligation is even wider than that of Zakat, and it can lead to the greatest possible demonstration of the principle of brotherhood, particularly on the occasion of a collective festivity. These four categories are intended to distribute wealth among the needy and the poor.

5.4 **Nafaqat (Compulsory Spending On Close Relatives):**

Islam has imposed the responsibility of supporting close relatives; wife and minor children. There are other relatives who have to be supported only if
one possesses the means to do so. The Islamic law provides a long list of such relatives.

5.5 **Wirasat (Inheritance):**

The Islamic system of inheritance plays central role in the distribution system of Islam. This mechanism systematically transfers the inheritance of the heir to all the close relatives according to the dine injunctions. “Allah instructs you concerning your children: for the male, what is equal to the share of two females. But if there are [only] daughters, two or more, for them is two thirds of one's estate. And if there is only one, for her is half. And for one's parents, to each one of them is a sixth of his estate if he left children. But if he had no children and the parents [alone] inherit from him, then for his mother is one third. And if he had brothers [or sisters], for his mother is a sixth, after any bequest he [may have] made or debt. Your parents or your children - you know not which of them are nearest to you in benefit. [These shares are] an obligation [imposed] by Allah. Indeed, Allah is ever Knowing and Wise”.

5.6 **Integrated Poverty Solution:**

Poverty is a multidimensional issue which necessitates multidimensional measures to address it effectively. Social safety nets measures exactly fit in the need of a wide range of the poor who require diverse assistance according to their specific conditions. The following table represents the various categories of the poor and corresponding Islamic measures to address each category accordingly.

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<th>Measurement of Poverty on the basis of prescribed min amount.</th>
<th>Suggested measures</th>
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| **I.** Extremely poor; < 50% of the Prescribed Amount (PA)     | A. Zakat, Sadqat and other associated measures of relief and immediate relief on permanent basis.  
B. Donation  
C. To provision of basic needs i-e food, shelter, education.  
D. Subsidy, especially on food items and utility services |
| **II.** Ultra poor> 50% but < 75% of the PA                    | A. Zakat, Sadqat and other associated measures of relief  
B. Donations  
C. Wage employment  
D. To provide basic needs i-e food, shelter, education etc.  
E. Cash for work  
F. Various short term trainings |
G. Subsidy, especially on food items and utility services.
H. Access to Islamic microfinance Programs

III. Poor > 75% but < 100% of the PA
A. Zakat, Sadqat and other associated measures of relief
B. Donations
C. Self-employment.
D. The provision of basic needs i.e. food, shelter, education etc.
E. Cash for work
F. Various short term trainings
G. Subsidy, especially on food items and utility services.
H. Access to Islamic microfinance Programs

VI. Non-Poor >100% of the PA
A. Various trainings for improvement in productivity.
B. Self-employment
C. Access to Islamic microfinance and other financial institutions.

Source: Authors’ own understanding

Table-1 provides categories of the poor calculated on the basis of the minimum prescribed amount. The table depicts that the level of poverty is not the same therefore; the effective solution to the issue of poverty may not be the same for each group of the poor. Various integrated feasible measures corresponding to each group of the poor represented in the table. If we treat all the groups alike and offer the same remedial bundle to each group, this treatment will obviously misuse the scarce resources in terms of yielding the optimal solution to the issue.

The worst of the poor is “extreme poor” class. These are the people who cannot participate in physical economic activities either because of physical or mental disability or old age and ill health. These people cannot perform economic activities therefore; the provision of credit facilities for such group of people will obviously guarantee a default of the loan. Same is the case with Ultra poor. People who belong to this group, possess approximately the same characteristics as the extreme poor class therefore, they need the same bundle of relief like the extreme poor group. People representing this group cannot effectively perform economic activity. This group of people needs credit but they are less credit worthy.

Category three consists of the poor class. This class is a better class as compared to the previous two classes. This group of people needs credit and other facilities for self-employment activities and they are capable to perform economic activity and pay back their loans within the due time period as well. This group of people is considered as credit worthy. In spite of performance of self-employment activities, the group requires other incentives as subsidy, free access to education, health, clear water and shelter etc. The succeeding group of
people (Non-poor) approximately requires the same measures of social safety nets for the performance of efficient economic activities.

6. **Implication of the Study for Social work and Social Workers:**

Community-oriented social work (COSW) practitioners believe in strong social bond between the poor community and social workers. It argues that social workers should be directly involved in the relief of poverty and that the approach most likely to prove successful in this context is one in which practitioners retain close contact with the local community, working in partnership with a joint focus on prevention and empowerment. Social workers, like Islamic economists, believe that poverty cannot be effectively alleviated with commercial models such as microcredit (at micro level) or trickle-down theory (at macro level). They do not believe that poverty is the only resulting outcome of lack of access to financial capital but it is a multidimensional phenomenon which requires addressing the issue in multidimensional contexts.

Social scientists believe in close interaction between the marginalized communities and comprehensive poverty alleviation strategies for effective solutions of socioeconomic problems. Unlike Capitalism suggestion for alleviation of poverty, disbarment of credit on commercial basis and the provision of capital to alleviate poverty are the tools which are neither accepted in Islamic framework nor in standard social policies.

6. **Conclusion:**

This study investigates the concept of poverty in Capitalism and Islam in terms of both; as an economic ism and as a living ideology. Capitalism as a living ideology, based on its’ philosophical foundations, ultimately yields class conflict, deprivation, discrimination and accumulation of wealth in the hand of a few capitalists. Capitalism as an economic ism has become unpopular in the world not only because of socio-economic injustices but also due to environmental degradation and losses in biodiversity. Theoretical analysis reveals that the built in mechanism (Demand-Supply) of capitalism is incapable to resolve the issue of poverty effectively. The popular theory of income generation and employment for the poor class (The trickle-down theory), postulated by the Capitalist, did not record any remarkable changes in the socio-economic conditions of the lower class even in the champions economies of capitalists. The concept of poverty in Islamic context is different from the concept of poverty in the Capitalism. Poverty is a pure economic concept in Islam which does not affect the social class and social values of humans. Looking at the distributive instruments, which are based on equity and justice, the Islamic Economic system may be a better arrangement for the poor and marginalized classes.
Notes and References:

11. Ibid.
15. Al-Quran: 43:32