



## Consumption with Shariah Based Imprint: Eradicating Extreme Poverty and Hunger with Infaq, Waqf and Rushd Behavior in Pakistan

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### Abstract

*This is a conceptual paper regarding consumption for policy implications based on the teachings of Islam. It awakens Islamic civil society for bringing about a correction and balance in the society whereby extreme poverty is eradicated through a consumption (and spending “infaaq”) approach in the light of (understanding the concepts of) Rushd, waqf and infaq fi sabeelillah for sharing rizq and setting aside rizq and resources for others. According to the Islamic principles, zakat and infaq fi sabeelillah are encouraged to deal with the disparities of wealth in general and to strike at poverty in particular. The rightly guided people (raashidoon) are encouraged to worship Allah as well as give to the poor. It is in contrast to consumerism of the western capitalistic schools of thought. In economic guidelines using the consumption theories, the concepts of Rushd, waqf and infaaq need to be incorporated in policy implication in the Muslim world.*

**Key Words:** Extreme Poverty, Hunger, Rushd, Waqf, Infaaq Fi Sabeelillah, Rizq, Consumption Theory

### Introduction

Islam recognizes the important role of one’s spending or consumption that includes spending on the poor and giving away one’s wealth in different forms for the hungry, extremely poor, downtrodden and to the benefit of the general public. This is not the saving in the mainstream economics’ sense but it is nevertheless spending or consumption which Allah (SWT) recognizes as your investment. (Spending in the way of Allah (SWT)).

Existence of poverty especially extreme poverty in a country and the world shows three main things: one, that the existing economic cum distributive system is flawed, two that world’s poverty eradication programs, as well as the welfare activities, are not sufficient and three, that the existing amount and distribution of

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*zakat* ( in the Muslim areas), alone is not sufficient to eradicate extreme poverty and hunger.

The alarming levels of poverty and the existence of extreme poverty and hunger require serious thinking and collective as well as individual acts and commitments to eradicate it. It definitely requires setting aside some wealth for the poor, i.e. development of Awqaf. Waqf is generally a medium to long run action while hunger requires immediate action now, i.e. giving away from one's current "*rizq*" now, i.e. giving some food from one's own plate to the hungry as this requires urgent action. Both short run and long run actions are *infaq fi sabeelillah*, setting aside or giving away from one's *rizq*, as categories of *waqf* and fall within the mannerism of *Rushd*, or good conduct. Given below is the synthesis of mainstream conventional capitalistic system's approach of consumption and saving followed by modifications suggested for putting the Islamic perspective in it.

### **The Conventional Approach to Market Economy Versus the Islamic Approach**

In economics, the market economy and the institutional setup of the market economy has been propagated by the classical as well as the neoclassical Keynesian theory of consumer behavior. Within the market economy, it has not recognized the role of consumption pattern in a market economy. It has always stressed on savings and investments of the households leading to growth in the economy. Given below is the explanation of consumption and spending theory of market economy-based conventional economics.

In a market economy, the demand and supply of goods and services in a market determines the price level at which consumers purchase and sell them. Consumption or spending by a consumer is based on the wants and needs of a consumer in general. The level or amount of consumption depends upon the price of the commodities, which in turn is dictated by its demand and supply and the principle of the scarcity of resources and unlimited wants. The consumer spending is modeled as the consumption function, C. The consumption function is an equation describing how a household's level of consumption varies with its disposable income. It is the product of an individual's autonomous consumption or spending A, marginal propensity to consume, MPC and the disposable income, DI of the consumer. It is given by the following formula:

Consumption function:  $C = A + (MPC \times DI)$

Where autonomous consumption A is the amount of consumption regardless of the amount of income. Even if the income is zero, there will be autonomous consumption because of human needs and autonomous consumption would be the total consumption in that case.

MPC x DI makes the induced consumption, which refers to the level of consumption depends on the level of income.<sup>[3]</sup>

Therefore consumption is a function of autonomous consumption and induced consumption. The theory says that autonomous consumption does not depend upon one's income while induced consumption depends upon one's income and the resultant disposable income.

At the macro level theory of the economy, in terms of aggregates, consumption is consumption expenditure (C). It is the same household consumption function described above. According to the Keynesian economics approach, Aggregate expenditure is one of the methods to calculate the sum total of all economic activities in an economy, which is referred to as the gross domestic product of an economy. Aggregate Expenditure (AE) is a function of Consumption expenditure (C), Investment (I), Government spending (G) and Net exports (NX).

$$AE = GDP = C + I + G + NX$$

while gross investment I is everything that remains from Aggregate expenditure after consumption, government spending, and net exports are subtracted.

$I = GDP - C - G - NX$ . Investment is the amount of expenditure towards capital goods. Investment refers to the expenditure on goods that are expected to yield a return or increase their own value over time.

- In terms of National Income, the same formula for Gross Investment can be written as National Income or  $Y = C + S + T$ , where C represents consumption, S represents Savings and T represents taxes.
- Whereby if anyone gives one apple from her groceries of consumables, her consumption spending will remain the same but the Autonomous consumption of the poor will increase. Similarly, if one gives away say, \$ 1000/- from ones disposable income that would reciprocate as one's saving for society as *waqf*. Hence the total national saving S shall have a component of Giving as *waqf*.

## The Gap

For most of the Muslim countries of the world, after getting independence from the colonial powers, the system of Market economy was in place. Before their colonialization, the Islamic system had a market economy as well as the welfare economy. However, after independence, the fabric of the welfare economy and the systems supporting them had finished altogether and the only the market economy based system was further developed and propagated.

- a) Only Market economy cannot be the answer to all members of society. The market economy can serve only those who have the purchasing power and the resources to buy and sell in the market based on the market prices. Along with the market, there is a need for the welfare economy which is not run by

the demand and supply- based pricing but the needs of the downtrodden and extremely poor and hungry. These needs are provided for by the society, be it an individual, a community or a government or international organization.

- b) Consumer spending is a very important factor in bringing about a positive impact on the society. Consumer spending in a welfare-cum-market system shall entail more than just the market economy's principles. This is explained below:

The conventional economics' based micro-level consumption function theory does not say that, even if someone has no income, he/she ought to have some basic consumption or the same autonomous consumption A which is to be provided by other people in the society, such as neighbours and close family members or a welfare state. This is where the Islamic approach and the welfare system of Islam sets in. It is explained with the help of the consumption function below. According to the consumption function:

$$C = A + (MPC \times DI)$$

A is autonomous consumption, which is not dependent on the income level.

Suppose a poor person has necessary consumption equal to \$ 500 while his disposable income DI is \$300. If MPC is equal to 1, meaning that whatever he earns is consumed, in that case, using the formula of  $C = A + (MPC \times DI) \Rightarrow 500 = A + (1 \times 300)$  or  $A = 500 - 300 = 200$ .

This  $A=200$  is not from his earning but from the contribution of outsiders (neighbours, community or state). If this amount is contributed by other individuals, say his neighbours, in that case, their consumption function is described below: Suppose the wealthy neighbor of a poor person has a Disposable income DI of \$15,000, his Autonomous consumption is \$2000 and MPC is 0.4. His consumption C, using the formula

$$\begin{aligned} C &= A + (MPC \times DI) \\ &= 2000 + (0.4 \times 15,000) \\ &= 2000 + 6000 = 8000. \end{aligned}$$

Now if this person helps his poor neighbor by giving him \$200, his consumption function will change. It can be written as :

$$C = A + (MPC \times DI) + (m \times DI)$$

Whereas m represents the percent contribution of Disposable income to help the needy. In this case, since

$$C = 8000 + 200 = 8,200, \text{ we have}$$

$$C = A + (MPC \times DI) + (m \times DI)$$

$$\text{Or } 8200 = 2000 + 6000 + (m \times DI)$$

$$\text{Or } 8200 - 8000 = m \times 15,000$$

$$\text{Or } 200 = m \times 15,000$$

or  $m = 200/15,000 = 0.01333$

Therefore for  $C = A + (MPC \times DI) + (m \times DI)$

$C = 8200 = 2000 + 6000 + (0.01333 \times 15,000)$

The above working explains that when individuals have no income or very little income, their consumption is the Autonomous Consumption A in the consumption formula. Hence when  $A < \text{Disposable Income}$ , it is this A (unavoidable basic needs consumption), which is provided for by the society. The rich neighbor's Consumption function will, therefore, include a portion of the contribution to the poor neighbor as  $m \times DI$ . This ( $m \times DI$ ) portion is the portion of *infaaq*, which includes waqf as well as buying necessary items like food or paying for the poor person's clothing, education, health services etc. When the rich or non-poor help the poor with his own consumption/spending, the total consumption in society increases. In addition, the consumption of the basic necessities of life increases, which will result in the allocation of resources towards the production of those basic necessities, whose demand increases in the market. This shall cause a redistribution of capital resources also.

Extending this concept further, let's take the case of a non-poor person whose Disposable income is \$2,500 and his Autonomous consumption is 2000 while the rest 500 is  $(MPC \times DI)$  meaning that  $MPC \times DI = 0.2 \times 2,500 = 0.2$  as his MPC. Suppose this person shares his A or  $MPC \times DI$  part of consumption with his hungry neighbor, equal to \$200, his total consumption remains the same but he shares his own food and belongings with his neighbor. This is the case of that *infaaq* (which may be moving towards the concept of *eesaar* if his consumption is just enough for his own use) in which his overall consumption spending remains the same but it gets distributed over two people as he foregoes a part of his own consumption and shares that with his poor and hungry neighbor. In this case the demand for the goods and services remain the same but the benefit from the given resources is shared with more people. This is also good for the society as the efficiency of the resources increases overall.

Hence, the A in any poor person's consumption function where his income D is less than A, is contributed by the society and a part of A and  $(MPC \times DI)$  of the non-poor is shared with the poor and hungry in the society and is therefore, not just the function of his own needs and wants but also the needs of the poor and hungry. The latter spending on the poor is not a compulsory deduction but his *eeman* and feeling for the hungry and poor, coupled with the feeling of satisfaction as well as rewards from Allah and seeking the pleasure of Allah (SWT).

### **Sentiment, Behavior and Value System- Translating Values into Action**

There are certain positive or conducive values of a society that if converted into action, can bring about a positive impact on the society be it the environment or

world poverty. Social psychology explores the values –action gaps and KAP (knowledge –attitude –practice) studies on human behavior, consumption is one of the human behaviors of great importance due to its impact on society. However, it studies “what it is” as well as “what can be induced”, to bring about a positive change in behavior through control groups and experimental groups segregation and observations. When discussing the values –action gap, the lack of translating values into action is discussed as an impediment to changes in individuals’ consumption behavior. For ethically motivated or religiously motivated consumer spending and endowments for the public good and poverty eradication, the awareness and propagation of Islamic teachings of *infaaq*, including sharing and *waqf* provides the necessary background for translating values into action. This should serve as a good base for Muslim countries to promote consumption based on good socio-economic behavior.

### **Islamic Teachings and Spending on the Needy**

Islamic teachings provide a strong ethical base based on the belief system of Islam, primarily based on the Quran and Sunnah. The guidelines provided by the main text of the Quran give a strong behavioral guideline to the Muslims. Islamic *fiqh* explains the understanding of market rules through *fiqh ul buyu* and understanding of wealth rules through *fiqh ul maal*. Regarding behavior, the Quran uses a number of words but of particular importance is the word “Rushd” which can be closely translated as good behavior based on right mindset. See Annexure I for references from the Quran for *rushd*, *nafaqa* and *rizq*.

Spending out of one’s wealth on the poor, wayfarer, and needy, (relatives, orphans, the helpless, the wayfarer, and to those who ask for it, and in freeing slaves ( 2:177, [9:60])) giving alms and charity and setting aside wealth from one’s personal use for public good are part of good human behavior. For instance “*zakat*”, is part of compulsory worship act, and is mandatory on those who have the minimum mandated wealth (the “*nisaab*”). However, spending on others “from what Allah (SWT) has given you”, is a statement that shows that whatever one has, he should spend a portion of it, small or large, according to ones means, on the needy even when a person is not eligible to pay “*zakat*”. *Waqf* is praised in very commendable terms as “*sadqa e jaariya*”, or perpetual goodness even after ones death to the person who gave it, These virtuous acts of giving to others, as compulsory requirements, voluntary endowments and small charities are encouraged as good moral behavior, right-mindedness or “*Rushd*” of the righteous people “*raashidoon* and ‘*mo’minoona*”, and a means of attaining the pleasure of Allah (SWT).

The above-mentioned concepts of good behavior (*Rushd*), inducing charity and endowments (*waqf*, *zakat* and *infaaq*) are not discussed in the consumption theories of economics or national income formulae. However, as explained briefly

through the formulae of consumption in this paper, a righteous Muslim's consumption includes *infaaq fi sabilillah* in the form of charity and waqf. *Rushd* or the right-mindedness in consumption and consumer behavior is in contrast to consumerism of the western capitalistic schools of thought. These theories need to be developed further to portray right minded behavior and to create behavioral awareness and provide policy guidelines in the Muslim world.

## Conclusion

It is seen that studies in sustainable development now recognize the important role of consumption in bringing about positive changes in society. However, mainstream classical and neo classical economics do not address the important role of consumption in society for eliminating hunger and poverty by shared consumption (and sharing wealth). In addition, its axioms of more are better and self-interest does not encourage spending for society. By recognizing the important role of shared consumption with its orientation towards helping the less fortunate in the value system of a society, the problems of poverty and hunger can be solved much quickly and efficiently. There is a need to include the sharing of consumption in the consumption function of individuals. This is an element of inertia in the society which gives benefits to the poor who get their basic needs fulfilled through other people's kindness and also to the individuals who are helping the poor (by giving satisfaction and *sawaab*). Similarly, on a macro level, the "Giving" function, which would include donations and waqf must be added to the National Income. Very urgent problems like hunger and extreme poverty are to be identified and addressed by an individual at their neighborhood level. This is the duty given to each individual by Allah (SWT). The value-based system of Islam needs to be highlighted in the society and mainstream studies of economics for creating awareness and promote further positive action by society.

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## Annexure I

### **References from the Quran for Rushd, Nafaqa and Rizq**

Allah says in Quran,

*And know that among you there is the Messenger of Allah. If he obeys you in many a matter, you will certainly fall into hardship. But Allah has endeared to you the Faith, and made it beautiful in your hearts, and made detestable to you the disbelief and sins and disobedience. Such people are rightly guided, (al Quran 49:7)*

Regarding spending, the root word “nafaqa”, and its derivatives are used, which means “to spend “.Allah says in Quran,

*“And those who have responded to their Lord (in submission to Him), And have established Salah, and whose affairs are (settled) with Mutual consultation between them, and who spend out of what We Have given to them, (Al Quran 42:38)*

Regarding ones assets and wealth, the word “rizq” and its derivatives are used which means “Provision”. Allah says in Quran,

*“Those are the believers in reality. For them there are high ranks With their Lord, and forgiveness, and dignified provision.”*

Allah Says in another place,

*“Who believe in the Unseen, and are steadfast in Salah (prayer), and spend out of what we have provided them.”*

Delving deeper in the discussion, the guidelines of the Quran direct humankind to worship (based on the belief in one God) as well as do good deeds. In other words, there are a set of worships “*ibadaat*” as well as a set of rules for behavior or acts, “*muamlaat*” for dealing with each other. Good behavior is also termed as worship, giving it immense importance.

In the Holy Quran, Allah point out those people who are entitled for giving Zakat. Allah Says,

*“Righteousness is not (merely) that you turn your faces to the East and the West; but righteousness is that one believes in Allah and the Last Day and the angels and the Book and the Prophets, and gives wealth, despite (his) love for it, to relatives, and to orphans, the helpless, the wayfarer, and to those who ask, and (spends) in (freeing) slaves and observes the Salah (prayers) and pays Zakah and (the act of) those who*

*fulfill their covenant when they enter into a covenant, and, of course, those who are patient in hardship and suffering and when in battle! Those are the ones who are truthful, and those are the God-fearing.”*

Allah Says in another place,

*“The Sadaqat (prescribed alms) are (meant) only to be given to the poor, the needy, to those employed to collect them, to those whose hearts are to be won, in the cause of the slaves and those encumbered with debt, in the way of Allah and to a wayfarer. This is an obligation prescribed by Allah. Allah is All-Knowing, Wise.*