

STRATEGIES FOR COMBATING POVERTY AND THE LIMITATIONS OF TRADITIONAL ECONOMIC SYSTEMS: A PATH FORWARD

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Abstract

The essential need for basic necessities such as food, water, education, clothing, and shelter is a universal concern. Poverty, characterized by a lack of these necessities required for a decent life, remains one of the most significant social issues of our time. Despite recent global prosperity, inequality has risen both within and between nations, and the number of people living below the poverty line continues to increase alarmingly. Poverty reduction aims to lower poverty levels among groups or countries. Various strategies, programs, and approaches have been adopted at different levels by nations and international organizations to address this issue. However, these efforts often remain confined within the framework of mainstream economic systems, with limited success in eradicating poverty. This paper explores the concept of poverty within conventional economic systems and examines why these approaches have failed to fully alleviate poverty. It also presents an alternative system with effective, comprehensive, and flexible mechanisms that could significantly reduce poverty and income disparity among individuals, groups, and nations.

Keywords: *Poverty, Zakat, Conventional Economy, Waqf, Islamic Economy*

Introduction

Today's society is experiencing a widening gap between the wealthy and the impoverished, with the rich growing richer at an alarming rate and the poor becoming increasingly disadvantaged and disheartened. Despite numerous efforts to combat poverty and reduce income inequality, the disparity persists. Poverty is recognized as a complex and multifaceted economic issue with significant political and social implications. It manifests in various forms across societies, regardless of their resources, technological progress, level of development, cultural norms, political systems, or social structures, drawing considerable attention from

policymakers. Poverty reduction has been a central objective of global development policies (UN, 2009). It involves efforts to lower poverty levels within specific groups or countries. Various strategies, programs, and approaches are employed at different levels local, national, and global to address poverty.

Economic policies and poverty reduction strategies today are designed to align with mainstream economic systems. However, these strategies often fall short of achieving their goals. For example, in the 1960s, the International Monetary Fund and the World Bank focused on developing countries, but large-scale projects intended to modernize these economies often failed to benefit the

poor, increasing wealth for the elites while leaving the poor unchanged. Many development projects of the 1980s failed, promoting corruption rather than economic growth (Barbara, 2009).

This paper explores the shortcomings of mainstream economic systems in addressing poverty and proposes alternative solutions through Islamic economic strategies. It begins by examining the concept of poverty, its measurement, causes, and conventional reduction measures. It then reviews poverty from an Islamic perspective, analyzing strategies used during classical Islamic periods and their relevance today for reducing poverty to manageable levels that support sustainable growth and equitable human development. The study concludes with recommendations for addressing these issues more effectively.

Concept of Poverty

Poverty is universally recognized as a harmful force, regardless of one's ideological or political views. It is commonly defined as severe deprivation of basic human needs at the individual or household level (Obadan, 2009), often assessed in monetary terms (Aliyu, 2012). Poverty can also be seen as the failure to secure essential necessities such as food, water, education, healthcare, and shelter. The World Bank defines low-income or poor countries as those with a per capita income below \$600 annually, with around 45 countries, predominantly in Africa, falling into this category. The concept of poverty varies by country and evolves over time, influenced by economic, social, and political factors. Identifying who is poor is crucial for developing alternative definitions of poverty, highlighting its multi-faceted nature.

Subjective assessment is another approach to understanding poverty, where the poor themselves or their communities define their situation (Streeten, 2008). Abdulbaki (2013) explains that the poor are those unable to meet their basic needs, leading to malnutrition, poor health, disease, and unemployment.

This paper acknowledges that poverty is distinctly recognized within each society and differentiates between absolute and relative poverty. Absolute poverty refers to a state of destitution where basic livelihood needs cannot be met, which is the focus of this study.

Relative poverty, on the other hand, pertains to lower income groups who are less well-off compared to higher income groups but are still relatively comfortable within their context. While relative poverty cannot be entirely eradicated, it can be minimized.

Mainstream Economic System

Mainstream economics, also known as conventional economics, typically refers to the secular paradigms of socialism and capitalism, with capitalism being the more prevalent global economic system. Siddiqi (1983) notes that the world has primarily followed two economic systems: communism and capitalism. Communism arose as a reaction against the inequitable distribution of wealth inherent in capitalism, but capitalism ultimately prevailed.

Modern society was led to believe that capitalism and secular democracy, as practiced in the West, were solutions to global issues. However, it has become evident that capitalism or the free-market economy, as some prefer to call it has exacerbated economic disparity, tyranny, and oppression. It introduced the concept of 'Homo Economicus,' a self-serving individual driven by personal gain without regard for ethical, social, or legal considerations (Iqbal, 2012). This has led to significant issues such as 'poverty in the midst of plenty,' revealing the inherent flaws of conventional economics, including its focus on individualism and materialism.

Poverty is a complex phenomenon with both natural and human causes. Human factors contributing to poverty include political instability, economic recessions, income inequality, illiteracy, and widespread disease. Natural causes encompass disasters, droughts, and climate change (UNDP Report, 2011). Additionally, corruption, poor management of resources, weak governance, and moral decay also play roles. Therefore, any effective strategy to combat poverty must be multifaceted, addressing all these various factors. Conventional economics, however, often lacks this comprehensive approach.

Poverty Fighting Strategies in Mainstream Economy

Abdulkaki (2013) analyzed the shortcomings of conventional poverty reduction policies and identified six key policy instruments: minimum wage, interest rates, exchange rates, prices, subsidies, and taxes. In many developing countries, these policies are often intertwined with international Economic Reform Programs (ERPs) imposed by the IMF and World Bank.

The United Nations' Division for Social Policy and Development (DSPD) held an Expert Group Meeting from May 8 to 11, 2017, in New York, focusing on strategies to eradicate poverty and achieve sustainable development. The meeting resulted in 71 key policy recommendations, which align with the World Bank's three main approaches to combating poverty:

1. **Strengthening Economic Growth:** This involves employment policies, supporting small and medium businesses, and increasing investment in poorer areas.
2. **Human Development:** Investment in human capital, including education, health care, nutrition, and sanitation in impoverished areas.
3. **Social Welfare:** Transfer payments targeting needy groups in society.

Despite these recommendations, their effectiveness has been limited, partly due to conflicting policies imposed by global financial institutions such as the World Bank and IMF. Abdulkaki (2014) criticized these strategies for their inconsistencies and conflicts, noting that they often call for increased government spending and investments in rural areas, which are contrary to the principles of the capitalist system that controls these economic reforms. As a result, these strategies have proven inadequate in effectively addressing poverty.

Given these shortcomings, there is a strong argument for shifting paradigms and adopting alternative strategies, such as those offered by Islamic economic principles. These alternatives are believed to offer comprehensive, diverse, and flexible mechanisms that could more effectively address and alleviate poverty.

Poverty in Islamic Perspective

Several prominent economists have acknowledged the failure of conventional economic systems to accurately capture the true nature of human economics and to effectively address economic challenges, including poverty (Stieglitz, 2010; Laghari, 2013). Roger Bootle critiques the current economic situation, attributing it to a large-scale misjudgment driven by greed and self-delusion, which reveals deeper truths about both markets and human nature.

There is a growing need for a new economic system that comprehensively understands human nature and provides effective solutions to socio-economic challenges. Islamic economics is proposed as a system capable of addressing these needs. It is grounded in divine guidance (Shari'a), which outlines a balanced approach to managing economic resources as a form of stewardship. According to Ayub (2007), in Islam, individuals are seen as vicegerents of economic resources, with their rights and responsibilities defined within the bounds of Shari'a, considering their impact on others and society.

Islamic economics is characterized by several core principles:

1. **Balance between Work and Worship:** Integrating material and spiritual needs.
2. **Human Equality:** Ensuring equal treatment and opportunities for all.
3. **Mutual Responsibility:** Emphasizing communal obligations.
4. **Distributive Justice:** Fair distribution of resources and wealth.
5. **Beneficent Use of Resources:** Utilizing resources for the common good.
6. **Limited Self-Interest:** Restricting personal interests to benefit society.
7. **Principle of Co-Existence:** Promoting harmony and cooperation.
8. **Freedom of Conscience:** Allowing individual freedom of belief and thought.

This framework is built on the concept of "Maslahah" (public interest) and focuses on satisfying basic needs such as life, property,

faith, intellect, and posterity rather than merely maximizing utility as in conventional economics. This approach aims to minimize poverty and achieve a more balanced and equitable economic system.

Lexicographic Order of Needs

Darūrīyat (Basic necessities)



Hajīyat (Complementaries)



Tahsiniyat (Amelioratories)

Absolute and Relative Nature of Poverty

In the Islamic perspective, poverty encompasses both absolute and relative dimensions, with further distinctions between material and spiritual aspects. The Prophet Muhammad emphasized that true richness comes from self-contentment, and the Qur'an highlights that those who overcome their covetousness are successful (59:9). The Prophet also noted that accumulating wealth out of fear of poverty leads only to spiritual poverty. This view condemns materialism and greed, common in modern capitalist societies, which often exacerbate inequality and poverty.

Islamic Strategies to Fight Poverty

Islam offers a range of strategies for poverty alleviation, rooted in its comprehensive and flexible approach. These strategies aim to address both material and spiritual needs and ensure a just social order:

1. **Zakah:** A central practice in Islam, Zakah involves compulsory almsgiving intended to redistribute wealth. It is mandated by Shari'a and is meant to be collected from the wealthy and distributed to the poor and needy, among other eligible groups. Zakah helps stimulate economic activity and investment, as it encourages the circulation of wealth rather than hoarding. Efficient management of Zakah funds can significantly impact poverty reduction by supporting socio-economic programs and investments (Abdulgani, 2013).

2. **Waqf (Endowments):** Waqf involves dedicating property or wealth for charitable purposes. This perpetual charity can support religious, philanthropic, and family needs, including healthcare and education. Cash waqf can also be an alternative to interest-based financing, supporting grassroots poverty alleviation (Ahmad, 2015; Maigari, 2017).
3. **Sadaqat al-Fitr:** This obligatory charity given at Eid al-Fitr is intended to support the poorest members of society. It ensures that even those who are themselves in need contribute to the welfare of the neediest (Islahi, 2011).
4. **Inheritance (Warathah):** The Islamic inheritance system promotes a broad distribution of wealth among the deceased's heirs, preventing the concentration of wealth in a few hands and helping lift many above the poverty line (al-Nisâ' 4:7).
5. **Prohibition of Monopoly:** Islam prohibits monopolies to prevent the unjust concentration of economic power and to ensure fair market practices. This helps in promoting competition and reducing poverty by allowing more individuals to participate in economic activities.
6. **Prohibition of Riba (Interest):** Interest is banned in Islam due to its tendency to exploit the poor and concentrate wealth among the rich. This prohibition aims to promote equitable wealth distribution and prevent economic exploitation (Mawdudi, 2013).
7. **Prohibition of Hoarding:** Hoarding resources to create artificial scarcity and inflate prices is condemned in Islam. This practice hinders economic activity and exacerbates poverty by reducing the availability of goods and increasing their cost (Al-Qur'an, 102:1; Muslim: 3910-12).
8. **Obligatory Expenditure by Relatives (al-nafaqat al-wajibah):** Wealthy individuals are required to support poor relatives, ensuring that family members who are unable to sustain themselves are provided for. This responsibility is proportionate to the inheritance that would be shared (Islahi, 2011).

9. Additional Provisions: Other Islamic principles also indirectly address poverty, such as prohibitions on extravagance and conspicuous consumption, and encouragement of hard work and self-reliance. The Prophet Muhammad emphasized the value of earning a living through one's own efforts and the virtue of giving over receiving.

These Islamic strategies collectively offer a framework for reducing poverty through equitable distribution, ethical economic practices, and communal responsibility.

Conclusion

Evidence clearly shows that conventional economic systems have struggled to address many of the pressing economic challenges, with poverty remaining a central issue. This highlights the need to consider alternative approaches. Islamic economic strategies, when implemented without prejudice, offer a comprehensive framework for eradicating absolute poverty. These strategies are complementary, flexible, and comprehensive, addressing macroeconomic objectives effectively and equitably.

Unlike conventional systems, which often prioritize individual self-interest and material gain, the Islamic approach emphasizes social justice and equitable wealth distribution. This shift in perspective can lead to more sustainable development and poverty reduction.

Therefore, it is crucial for governments, global financial institutions, and other relevant agencies to acknowledge the shortcomings of mainstream economic models and adopt the Islamic economic system's strategies. Embracing these alternatives could provide a more effective solution to poverty and contribute to achieving sustainable development goals.

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