

Poverty line in Islam re-examines inequality

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EVERY year Forbes puts together a list of the world's richest people, which this year in March revealed 1,826 billionaires with more than \$7 trillion in net worth. Bill Gates was found to be the richest person once again, a position he has held for the past 16 out of 21 years, with current total wealth of \$79.2 billion.

The search for the poorest people of the world, however, does not reveal much at the individual level. The only name coughed up by the internet for mentionable poverty was of one Jerone Kerviel, ex-Societe Generale trader of France, who owes around \$6.3 billion (www.cityam.com) in debt, as published on May 19, 2014.

Now, the question arises on how this measurement of the rich and poor is carried out, and whether it is correct to judge in simple terms of income or is wealth a more suitable yardstick.

International organisations like the World Bank, OECD, and European Union and other major international policy players like the US, have been advocating and drawing the poverty line based on individual income levels to measure absolute and relative poverty. The method is almost universally accepted.

But, what is Islam's perspective on the poverty line? The concept of poverty line, even if not spelled out as 'poverty line', is inherent to the concept of zakat, a fundamental pillar of faith for any Muslim.

The theory of nisab, the minimum net worth that makes a Muslim eligible to pay zakat, appears to have a few advantages over the conventional poverty measuring unit.

The main poverty line used in OECD and the European Union is a relative poverty measure based on economic distance, a level of income usually set at 60 percent of the median household income. The US, in contrast, uses income level on the

dollar costs of the US Department of Agriculture's "economy food plan" multiplied by a factor of three in case of measuring absolute poverty.

The World Bank currently defines absolute poverty as income below the international poverty line of \$1.25/day (ppp) and moderate poverty as less than \$2 a day.

The world's first Millennium Development Goal target was to cut the 1990 poverty rate in half by 2015 and according to most recent estimates, in 2011, just over one billion people lived at or below \$1.25 a day, compared with 1.91 billion in 1990 and 1.93 billion in 1981. Nearly 2.2 billion people lived on less than \$2 per day.

Despite the significant progress in incomes, the world is yet to address the deep deprivation, another measure of poverty, as the gap between the rich and poor persists, with a lack of access to opportunities.

Deep deprivation has only slight declined from 2.59 billion in 1981, according to World Bank.

Under Islamic law, a Muslim must possess idle wealth equal to the set nisab for at least one lunar year (354 days) for it to become zakatable. If a Muslim has less wealth than the nisab, he or she is exempt from zakat, and even becomes eligible to receive it.

Thus, the two concepts of wealth and possession of wealth for a certain period of time, which reflects capacity and sustainability of possessing the wealth, form the definition of 'rich' in Islam. Or, the 'poor' is defined as possessing wealth less than the nisab value at the time of measurement. This is the poverty line/poverty threshold in Islam.

The nisab is applicable to cumulative stock of dinars, dirham and any other zakatable valuables, such as merchandise that has been in store for at least one year. As long as the total value of the zakatable valuables exceeds the value of the nisab, zakat must be paid.

Now, how do the conventional



SK ENAMUL HAQ

Impoverished women look for jobs in Dhaka. As the poor cannot save enough to accumulate wealth, wealth should be taxed and more emphasis should be given to reduce inequality, analysts say.

poverty line and Islamic nisab measure up in demarcating the rich and the poor?

Savings function of income: The saving function relates the level of saving to the level of income where saving is the residual income after a household's consumption. A feature of the function is that it can derive a negative result at low levels of income. Having income greater than the conventional poverty line as defined by the World Bank may also lead to negative saving in developing countries. However, the Islamic poverty line always ensures savings at a minimum standard.

Minimum standard of life: The conventional poverty line cannot always ensure minimum standard of food, clothing, health, shelter, educa-

tion and other basic needs. Wealth can be only accumulated and retained for long, after fulfilling the basic needs and maintaining minimum standard of life.

Inequality: Fortune, an American business magazine, published an article on October 31, 2014 titled "Wealth inequality in America: It's worse than you think" and highlighted that wealth is about 10 times unequal compared to income among the wealthiest and poorest families in America.

This is a phenomenon common to all countries. The obvious reason behind it can be explained again by another feature of the savings function: if incomes increase savings also increase.

Savings accumulated over time are

converted to wealth and the rich can accumulate more whereas the poor cannot save enough to accumulate wealth. In such a scenario, wealth should be taxed and more emphasis should be given to reduce inequality. The Islamic poverty line may help the world diversify the concentration in formulating policy on poverty and poverty reduction from income to both wealth and income.

Inheritance: Most of today's rich inherited the wealth and accumulated further. Conventional poverty line ignores this aspect of inheritance.

Purchasing power parity: Income level at conventional poverty line is corrected to address the price differences across countries through purchasing power parity (PPP). Prices of the goods also vary within a country,

like urban prices are not the same as rural prices. Price difference within the country is generally not adjusted and remains static for conventional measures of poverty.

In this perspective, conventional poverty line cannot ensure same standard of life within the country. As savings address both the income and expenditure overtime, nisab automatically inherits the differences of the prices of the goods across or within the countries.

Time of measurement: The wealth of an individual can be measured at any given time for conventional methods, however for nisab to apply the wealth has to be idle for at least one lunar year.

Country asset database: A country can create a database of all assets such as land records, buildings, industries and organisations. So whenever individuals submit tax returns based on both wealth and income, it would be more difficult to evade taxes. If a country can build a strong database, wealth of an individual can be pinpointed at any time.

Sustainable income: Islamic poverty line ensures more sustainable income and standard of living than a conventional poverty line.

Worldwide, the number of hungry people has dropped significantly over the past two decades, even though about 21,000 people die every day of hunger or hunger related causes. Around 805 million people continue to struggle with hunger every day. Yet there is plenty of food in the world for everyone.

Our economic and social policy frameworks should be redesigned not only for food for all but to ensure clothing, shelter, education, health and a poverty-free world, which leads to a search for more equitable taxation, on income as well as wealth. The Islamic determination of wealth and taxable income can help do just that.

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REUTERS

A model poses for a selfie with the newly launched Xiaomi Mi 4i phone in Hong Kong, China on May 5.

Chinese smartphone market, world's largest, shrinks

REUTERS, Beijing

China's smartphone market has reached saturation, according to a new study by industry analyst IDC that carries potentially significant implications for the global handset industry led by giants like Apple Inc and Samsung Electronics Co Ltd.

During the first quarter of 2015, smartphone shipments in the world's most populous country shrank for the first time in six years to 98.8 million, down 4.3 percent from a year earlier, IDC said in report on a Monday, attributing the slump to "market saturation".

The rise of Chinese consumers has fueled booming demand for smartphones in recent years, lifting firms including Apple - which made a record \$16.8 billion in revenue in China last quarter thanks to its iPhone 6 series launch - and Beijing-based Xiaomi, which grew into a \$46 billion company in just four years.

China overtook the United States in 2011 to become the world's largest smartphone market.

But IDC's data suggesting that a slowdown has already begun could pose questions for the industry. Thanks to its large-screen iPhone 6, Apple consolidated its position in the shrinking Chinese market, claiming 14.7 percent market share, ahead of Xiaomi and Huawei at 13.7 percent and 11.4 percent, respectively, according to IDC. Global leader Samsung came in fourth in China with a 9.7 percent share.

The slowdown in China will increase pressure on manufacturers to seek growth in India and Southeast Asia, where striking partnerships with distributors will prove critical, said IDC analyst Xiaohan Tay.

Xiaomi, for one, has actively courted both online and offline sellers in India over the past year. The company, which has sold its handsets on Flipkart.com for the past year, said last month it would also sell its phones at The Mobile Store retail chain throughout the country.

Australia targets multinationals in tax crackdown

AFP, Sydney

Australia Monday announced plans to go after large multinational firms shifting profits offshore to minimise taxes, with 30 companies in the government's sights.

It also outlined proposals to force companies selling digital products, such as streamed content and e-books, to pay a goods and services tax.

Treasurer Joe Hockey, who last year said the practice of corporations shifting profits amounted to "theft", said he would reveal the new legislation when he hands down the national budget on Tuesday.

"The government will be proceeding with new tax integrity measures in the budget," he said, adding that the multinational anti-avoidance law would target the activities of 30 identified companies.

"These companies are diverting profits earned in Australia away from Australia to no tax or low-tax jurisdictions," said the treasurer.

Unpopular tax hands fresh ammo to Malaysia PM's foes

AFP, Kuala Lumpur

An unpopular new consumption tax has handed fresh ammunition to critics of Malaysia's embattled prime minister, with angry consumers complaining it has sent some prices surging, and economists warning it could harm growth.

The government on April 1 introduced the six-percent Goods and Services Tax (GST), which taxes transactions throughout the business supply chain and replaces earlier sales and service taxes on end-consumers that ranged from 6 to 10 percent.

The government had said the more streamlined tax regime would lead to lower prices for many key items and boost government revenue in Southeast Asia's third-largest economy.

Experts agree Malaysia's biggest tax reform in decades is necessary -- fewer than three million of the country's 30 million people pay income tax, and high government debt has economists worried.

But implementation has been marked by mass confusion over how the tax works, its array of exemptions, and contradictory government statements, with many businesses hiking prices amid the uncertainty.

The issue sparked a May Day protest by thousands of opponents and has provided fresh fodder for ruling-party forces seeking Prime Minister Najib Razak's ouster over allegations of corruption and mismanagement.

"We are victims of a mismanaged economy. (The GST) hurts the poor and the middle-class like me," said Kuala Lumpur pre-school teacher Siti Nora Manaf, 62.

Like many Malaysian consumers, she already faced rising costs, with the ringgit currency at its weakest in years due to concerns over the impact of soft world oil prices. Malaysia is heavily dependent on energy exports.

Siti Nora said the price of a bag of rice -- supposedly exempt from the GST -- has jumped 40 percent since April 1 amid the confusion. She has begun growing vegetables in the small garden at her home, while slashing other living costs.

Najib last month defended the tax as "an important reform that will help us build a stronger, more sustainable and transparent economy".

He has said short-term pain was unavoidable, while vowing to clamp down on profiteering. But critics question the timing of the GST's introduction.

After Malaysia's economy grew 6 percent last year, the World Bank in January forecast a slowdown in 2015 to a still-enviable 4.7 percent, citing the oil-price woes.

Malaysian consumers also shoulder some of Asia's highest levels of personal debt, increas-



AFP

A salesgirl walks past a signboard notifying the 6 percent goods and services tax (GST) on consumer goods at a mall in Kuala Lumpur.

ing public sensitivity to price shocks.

"Everyone's wallet is being hit. Salaries are not going up, and going forward consumers will face a hard time," said Paul Selvaraj, head of the Federation of Malaysian Consumers Associations.

Chua Hak Bin, a Bank of America Merrill Lynch economist, said the GST will crimp the domestic spending that Malaysia's economy increasingly relies on as export markets have softened.

"There will be a pullback in consumer spending and it could last until September due to waning consumer sentiment," Chua said.

He added, however, that scrapping the GST would be a "disaster" that would shatter investor confidence. Economists remain guardedly optimistic on the financial outlook, and foreign investment remains solid.

But worried comparisons are being made with Japan, which raised its consumption tax last year, a move blamed for stifling consumer spending and triggering a recession.

Anger over the tax comes as Najib is struggling to fend off a persistent campaign for his ouster by influential former prime minister Mahathir Mohamad.

Najib was weakened by 2013 polls in which the long-ruling coalition nearly lost power, and his reputation has been hammered this year by a drip-feed of damaging allegations of fraud at a debt-ridden state investment company he oversees.

Najib has skirted demands that he explain

how hundreds of millions of dollars have allegedly gone missing from deals involving 1Malaysia Development Berhad (1MDB).

He has denied wrongdoing and ordered government auditors to examine 1MDB's books.

The opposition has repeatedly warned that Najib's government will use taxpayer money to bail out 1MDB, which is mired in \$11 billion in debt. Officials have said there will be no bailout. Reports of his family's lavish lifestyle also have stoked public anger.

Najib, who is also finance minister, has been under pressure to get Malaysia's financial house in order amid warnings of a possible sovereign credit downgrade over rising government debt.

The government says an estimated \$6 billion in additional annual revenue will be raised by the GST, which exempts politically sensitive staples such as rice, sugar, and cooking oil.

But opponents of the GST say consumers are being stuck with the bill for a system in which huge sums of money are allegedly wasted by the government or go missing each year, and have demanded administrative reforms first.

"There is a genuine need for more money in government coffers, but public confidence in how it will be spent is low," Malaysia political analyst Bridget Welsh wrote in an essay this week.

"The GST has become a problem for Najib and this problem is only likely to intensify as the politics surrounding the measure grow more contentious."