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جامعة دار السلام كونتور

UNIVERSITY OF DARUSSALAM GONTOR

# Maximizing Utility And Distributing Income Equitably: How does Zakah Impact Both of Them at Once?

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## Abstract

*This paper is a theoretical article that examines how zakah is able to fulfill and increase the satisfaction of a Muslim consumer, even if it reduces the quantity of goods consumed. In addition, this article will also clarify the role and function of zakah in dealing with the problem of economic inequality. Economic inequality is characterized by uneven distribution of income and wealth and only revolves around a handful of people. This made the gap between rich and poor deepening. One of the factors causing the gap is the behavior of consumers who tend to pursue pure utility. So that it fosters greed in itself and increases negative behaviors such as hoarding property, and makes wealth not circulated in the community evenly. This study also identifies the impact of zakat on public consumption behavior which also has direct implications for income distribution. The results of the study show that utility in Islamic economics is a combination of two utilities. Worldly utilities that represent real satisfaction directly felt such as feeling full, happiness in the world, fulfilled their life needs. Also the ukhrawi utility is represented by an increase in faith and piety, and a reward that is expected to be obtained in the hereafter. Where zakah is able to increase the two types of utilities. This concept encourages rich Muslim communities to distribute their income through zakat instruments to the poor. So that the redistribution of income fairly can be realized through zakah, and in the end is able to realize equitable welfare in the community.*

**Keywords;** *maximizing utility, distributing income, justice, zakah*

## Abstrak

Makalah ini merupakan artikel teoritis yang mengkaji tentang bagaimana zakat mampu memenuhi dan meningkatkan kepuasan seorang konsumen muslim, meski dengan mengurangi kuantitas barang yang dikonsumsi. Artikel ini juga akan memperjelas peran dan fungsi zakat dalam menghadapi masalah kesenjangan ekonomi. Kesenjangan ekonomi yang terjadi ditandai dengan distribusi pendapatan dan kekayaan yang tidak merata dan hanya berputar di segelintir orang saja. Hal ini membuat jurang pemisah antara kaya dan miskin semakin dalam. Salah satu faktor penyebab kesenjangan tersebut adalah perilaku konsumen yang cenderung mengejar utilitas murni. Sehingga menumbuhkan sifat tamak dalam dirinya dan meningkatkan perilaku negatif seperti menimbun harta, dan menjadikan kekayaan tidak beredar di masyarakat secara merata. Kajian ini juga mengidentifikasi dampak zakat terhadap perilaku konsumsi masyarakat yang juga berimplikasi langsung terhadap distribusi pendapatan. Hasil kajian menunjukkan bahwa utilitas dalam ekonomi Islam adalah kombinasi antara dua utilitas. Utilitas duniawi yang mereprestasikan kepuasan nyata yang dirasakan secara langsung seperti rasa kenyang, kebahagiaan di dunia, terpenuhi kebutuhan hidupnya. Juga utilitas ukhrawi yang diwakili oleh meningkatnya keimanan dan ketakwaan, serta pahala yang diharapkan untuk diperoleh di akhirat kelak. Dimana zakat mampu meningkatkan dua jenis utilitas tersebut. Konsep ini mendorong masyarakat muslim yang kaya untuk mendistribusikan pendapatannya melalui instrumen zakat kepada masyarakat miskin. Sehingga redistribusi pendapatan secara adil dapat terwujud melalui zakat, dan pada akhirnya mampu merealisasikan pemerataan kesejahteraan di masyarakat.

**Kata kunci:** maksimisasi utilitas, distribusi pendapatan, keadilan, zakat

## Introduction

The problem of poverty and economic inequality is still a phenomenon that grabs public attention in the world. Not a few studies and studies were conducted to find solutions to these problems.<sup>1</sup> The Islamic economic system is present offering solutions in order to realize justice in the distribution of income, so that the existing inequality in the community will be reduced. One of those is zakah instruments that are believed to be able to reduce the gap between rich and poor.<sup>2</sup>

Zakah is a *maliyah ijtima'iyah* worship which is obligatory for every Muslim who meets certain criteria. As the third pillar

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<sup>1</sup> Hisham Handal Abdelbaki, "The Impact of Zakat on Poverty and Income Inequality in Bahrain," *Review of Integrative Business and Economics Research*, Vol. 2 No 1, 2013, p. 143.

<sup>2</sup> Ika Yunia Fauzia, et.al., *Prinsip Dasar Ekonomi Islam*. (Jakarta: Kencana, 2014), p. 51.

of Islam, zakah has the authoritative and mandatory nature to be implemented. Fauzia & Riyadi explains, there are at least 82 verses in the Qur'an that mention the command of zakah along with the command of prayer.<sup>3</sup> This implies that the obligation to pay zakah has the same level as the obligation to perform prayer. Unlike prayer which is an individual ritual worship, zakah has a distinctive characteristic, where zakah is worship of property to be distributed to those who are entitled to receive it.

Studies on the collection, distribution, and potential of zakah have been very much done. Even the potential of large zakah and its function as an instrument to alleviate poverty has been the focus of studies of several Islamic economic literatures for many years.<sup>4</sup> Some zakah institutions such as BAZNAS later carried out zakah inclusion programs. The program is part of the publication and propagation of zakah to be more accessible to the public. In optimizing the program, BAZNAS cooperates with OJK. This is done to improve the financial literacy and inclusion of zakah in order to realize a just and prosperous Indonesian society.<sup>5</sup>

In Indonesia, efforts to achieve equal distribution of wealth and fair income redistribution among the community continue to be encouraged. Because realizing social justice for all the people of Indonesia is the ideal of the Indonesian state contained in the Pancasila. For this reason, the state is responsible so that the available resources can be distributed fairly and evenly to all levels of society.

Resources and property in Islam, are mandates entrusted by Allah. Humans as caliphs on earth, are given authority to manage existing resources and property. Humans can claim ownership rights over these assets through a legal mechanism according to Islamic teachings. In addition, humans also have the right to use these assets through the mechanism of consumption or distribution to other parties legally and lawfully.

In economic studies, as explained by Alam, consumption is an activity carried out by a person in order to use and spend the benefits of an item or service, in order to fulfil their needs.<sup>6</sup> In other

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<sup>3</sup> *Ibid.*

<sup>4</sup> Zafar Iqbal, "Economic Rationale for the State Collection of Zakah". *International Journal of Islamic Financial Services*, Vol. 2 No. 1, 2000, p. 12-17.

<sup>5</sup> Kartika Andiani, *et.al.* "Strategy of BAZNAS and Laku Pandai For Collecting and Distributing Zakah in Indonesia," *Al-Iqtishad Journal of Islamic Economics*, Vol. 10 No. 2, 2018, p. 421.

<sup>6</sup> Sylvia Indrayana Poh, *et.al.* "Perilaku Konsumsi dan Faktor-faktor yang Mempengaruhi Masyarakat Surabaya dalam Mengonsumsi Produk-Produk Pastry dan Bakery". *Jurnal*

words, consumption is a process of revenue allocation to several things that become a need to be fulfilled.

Some experts say that efforts to measure the level of meeting consumer needs are still very difficult. Some arguments and theories related to the measurement of consumer needs continue to develop, until later utility theory emerges or known as satisfaction theory.<sup>7</sup>

It is understood from the theory of satisfaction that the value of an item or service that is taken advantage of when consuming, is attached to one's utility. So, the greater the satisfaction of a consumer in consuming an item, the greater the value of the item for the consumer.<sup>8</sup> Therefore, the value of an item or service will be different in the side of some consumers. Because the utility gained from consuming goods or services will vary according to the behaviour of consumers.

Related to this, Islam opens a new paradigm, that one's utility is not always determined by the level of satisfaction in consuming and taking advantage of an item or service. A Muslim, will not be enough to meet the needs of himself and his family. However, he will also think about how to meet the needs of others, as a form of obedience to Allah.<sup>9</sup> Through this sharing mechanism, the utility of Muslim consumers will increase. So that he will be moved to distribute his wealth and income to others in need, in order to increase his utility.

The mechanism for distributing income in Islam, is carried out through several instruments. Zakah is one of them. This third pillar is an instrument to ensure equal distribution of income distribution. The poor may not be able to engage directly in buying and selling activities because they have limited assets. Therefore, zakah is required as an instrument to realize justice in income distribution. Evenly distributed income will provide equal opportunities to all levels of society to be actively involved in all economic activities.<sup>10</sup>

Zakah and income that are distributed optimally, fairly and evenly are considered to be able to overcome the gaps that have

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*Hospitality dan Manajemen Jasa*, Vol. 1 No. 1, 2013.

<sup>7</sup> Catalin Angelo Ioan, et.al. "A New Approach to Utility Function", *Acta Universitatis Danubius: Oeconomica*, Vol. 11 No. 2, 2015, p. 209.

<sup>8</sup> Ahmed Kameel Mydin Meera, et.al. "Revisiting The Concepts of Money, Profit and Interest from The Perspective of Value and Diminishing Marginal Utility". *Journal of Islamic Monetary, Economics and Finance*, Vol. II Augustus 2015, p. 32.

<sup>9</sup> M. Fahim Khan, "Macro Consumption Function in an Islamic Framework", *J. Res. Islamic Economics*, Vol. 1 No. 2, 1984, p. 16.

<sup>10</sup> Almizan, "Distribusi Pendapatan: Kesejahteraan Menurut Konsep Ekonomi Islam". *Maqdis: Jurnal Kajian Ekonomi Islam*, Vol. 1 No. 1, 2015, p. 75.

been a problem so far. Because satisfaction and fulfillment of the needs of the rich (muzakki) and poor (mustahiq), can be fulfilled simultaneously.

So, how does Islam through its zakah instrument realize a fair income distribution? When viewed from the perspective of consumer behaviour, how can a Muslim who pays zakah increases his utility of consumption? This article will identify how zakah influences these two things at once. In addition to zakah, it has an impact on increasing the utility of Muslim consumers individually, at the same time, zakah also plays a role in realizing equal distribution of income in society.

## Discussion

### Zakah and Its Conditions

Literally, zakah comes from Arabic which is *maṣḍar* from *zaka-yazku* which means *namā* and *zāda*, which means to grow and increase. It also means *ṣalāḥa* and *ṭahāra* which means good and holy. Zakah which means purification and growth shows that zakah will purify human property from dirt and sin. It can be interpreted that zakah will purify the human soul (*muzakki*) from the properties of miser, hermit, envy, and various other bad qualities.<sup>11</sup>

Apart from this meaning, zakah is also interpreted as blessing, clean, and developing. Because in essence, when someone pays zakah, his wealth will grow with the blessing that Allah gives. Zakah is also interpreted as clean, because with someone paying zakah, then in fact he has cleaned himself and his property from the dirt and sin that accompanies it, due to the rights of others inherent in the property.<sup>12</sup> The existence of the rights of others to our property is an implication of the concept of ownership in Islam which explains that Allah is the real owner of all existing assets.<sup>13</sup>

In terminology, there are various opinions of experts regarding the definition of zakah. Although there are various expressions of different definitions, but broadly speaking, zakah is defined as part of property that has been determined by sharia, where Allah

<sup>11</sup> Nurul Huda, et.al., *Keuangan Publik Islami, Pendekatan Teoritis dan Sejarah*. (Jakarta: Kencana Prenada Media Group, 2012), p. 57.

<sup>12</sup> Hikmat Kurnia, et.al. *Panduan Pintar Zakat*. (Tangerang: Qultum Media, 2008), p. 77.

<sup>13</sup> Nur Barizah Abu Bakar, et.al. "A Comparative Study of Zakah and Modern Taxation". *Journal of King Abdulaziz University: Islamic Economics*, Vol. 20 No. 1, 2007, p. 36.

requires the owner of the property to give part of it to those who are entitled to receive it in accordance with the provisions of sharia.<sup>14</sup> Or in simple terms, zakah is a worship of property that meets certain terms and conditions according to sharia.<sup>15</sup>

In its practice, zakah is not only paid in the form of money. However, it is also paid for other assets such as livestock, agricultural products, mining goods, or gold and silver. In fact, as quoted from Qardhawi, in addition to these assets, the dynamics of the discussion of obligatory zakah property continue to grow. The counterpart scholars say that zakah is also imposed on property or goods of high value in modern times, such as deposits, securities, stocks, as well as bonds.<sup>16</sup>

Before being charged by zakah, items that must be paid for zakah (*amwāl zakawiyah*) must first be guaranteed to be eligible for zakah. Qardhawi states that the conditions of the mandatory property in zakah are; full ownership, developing, achieving *nisab*, exceeding ordinary needs, free from debt, and passing for a year.<sup>17</sup>

In addition, Qardhawi also explained that the collected zakah must be distributed to the eight groups that have been stipulated in the Qur'an called *mustahiq*. The eight groups include; *faqīr*, poor, *'amil*, *muallaf*, *riqab*, *gharim*, *ibnu sabil*, and *fī sabīlillah*. So that the distribution of zakah is bound and must follow the signs that have been stipulated by sharia. So the *amil zakah* institution as a party that helps distribute zakah to the *mustahiq*, of course will follow the provisions of sharia in carrying out various programs of distribution of zakah.<sup>18</sup>

## Income Distribution in Islam

Economists define distribution as an activity carried out by economic actors in order to distribute goods and services from the hands of producers (producers of goods or services) to consumers

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<sup>14</sup> Didin Hafidhudin. *Agar Harta Berkah dan Bertambah*. (Jakarta: Gema Insani Press, 2007), p. 55.

<sup>15</sup> Yusuf Qardhawi, *Hukum Zakat*, terj. Salman Harun, (Bogor: Pustaka Litera Antarnusa, 2011), p. 233.

<sup>16</sup> Nur Barizah Abu Bakar, *et.al*, "A Comparative Study of Zakah...", p. 42.

<sup>17</sup> Ade Nur Rohim, "Tinjauan Fiqih terhadap Pola Penyaluran Zakat (Studi Kasus pada BAZNAS)," *Tesis Program Studi Magister Ekonomi Islam*, (Bogor: Universitas Ibn Khaldun, 2015)

<sup>18</sup> Marissa Haque, *et.al*. "Measurement Optimization of Zakat Distribution at Lembaga Amil Zakat Using Variable Measurement of Economy." *Journal of Islamic Monetary Economics and Finance*, Vol. 2 No. 1. 2017, p. 77.

as users of goods and services.<sup>19</sup> Discussions related to income distribution, will relate to the discussion of distribution instruments used, both by individuals and the state.

Efforts to increase income distribution by various countries are still a hot topic of study. This is because inequality in income distribution and economic inequality are the real things that have happened in many regions of the world, including Indonesia. The condition of income inequality occurs because of differences in ownership of resources and factors of production, especially ownership of capital goods. Such inequality in fact makes the ability of an area to grow also not in rhythm. As a result, there are regions that are growing rapidly, on the other hand, there are also regions that are growing slowly. In addition, Kalalo<sup>20</sup> explained that income distribution is income sharing in the community. In a cycle, producers will receive a reward worth the price of the production factor that has been used. Income distribution occurs when consumers pay for the price of the goods produced by the producer. The amount of income received from each provider of production factors is adjusted to the level of service provided in the production process.

Indonesia is noted to have achieved economic growth, but the wealth produced does not seem to be distributed to the poor. This is the imbalance in the distribution of resources experienced by society today. This situation makes Islamic organizations like NU seek justice in different arenas. These demands are based on an Islamic economic system that adheres to the prohibition of usury and the intensive socialization of zakah, will enable Indonesia to achieve economic justice that is better than the capitalist or socialist economic system.<sup>21</sup>

The real impact that people feel from the inequality of income distribution is the power of purchasing power. Prapti<sup>22</sup> explains that groups of rich people, even though they are small groups in a community, but with the strength of their purchasing power,

<sup>19</sup> Almizan. "Distribusi Pendapatan:...", p. 67.

<sup>20</sup> Tiffany Kalalo, "Analisis Distribusi Pendapatan Masyarakat di Kecamatan Airmadidi Kabupaten Minahasa Utara." *Jurnal Berkala Ilmiah Efisiensi*, Vol. 16 No. 01 2016, p. 821.

<sup>21</sup> Mari Adachi, "Discourses of Institutionalization of Zakat Management System in Contemporary Indonesia: Effect of the Revitalization of Islamic Economics". *International Journal of Zakat*, Vol. 3 No.1, 2018, p. 27.

<sup>22</sup> Lulus Prapti, "Keterkaitan Antara Pertumbuhan Ekonomi dan Distribusi Pendapatan: Studi Kasus 35 Kabupaten/Kota Jawa Tengah 2000-2004, *doktoral dissertation*, (Semarang: Program Pascasarjana Universitas Diponegoro, 2006).



they can influence production patterns. Such conditions will direct manufacturers to produce luxury goods. While the production of basic needs is less.

Islam as a comprehensive religious teaching contributes a large portion of attention to income distribution. Where Islam provides signs and restrictions related to income distribution with indicators of needs referred to as *maqāṣid syari'ah* (the intent and purpose of sharia).

In addition to providing signs and restrictions, Islam also has the main foundation underlying the distribution system. The foundation is the basis for the belief that Allah is the true owner of the property. So that humans who hold property at this time, only given authority by Allah to manage it as well as possible in accordance with the rules and provisions outlined by Him.<sup>23</sup> With existing restrictions and provisions, a Muslim can manage his wealth to fulfill his life's needs.

The jurists as quoted from Wahbah Zuhaili classify the criteria of needs by referring to the priority scale that has been determined, among others: 1) *dharuriyyah*, it is the scale of needs relating to basic and basic needs in order to live life in the world and the hereafter, 2) *hajjiyyah*, it is the scale of needs associated with convenience, so that humans avoid difficulties in their lives in the world and the hereafter, 3) *tahsiniyyah*, the scale of needs which are completeness in order to realize skills in life in the world and the hereafter.<sup>24</sup>

Based on the priority scale of these needs, a Muslim can assess the needs that need to be fulfilled in his life, so that it will consume and influence the level of production. This is what will form a proportional income distribution.

## Concept of Utility and Consumption

Basically, utility is the satisfaction expected by a consumer from consuming a particular item or commodity, or taking advantage of a service. The expectation of satisfaction, which then encourages and motivates someone to determine the allocation of income obtained to several consumption channel options, also includes options for saving and investment.<sup>25</sup>

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<sup>23</sup> Shafinah Begum Abdul Rahim, "A Conceptual Framework of Distributive Justice in Islamic Economics". *Al-Albab Borneo Journal of Religious Studies*, Vol. 4 No. 1 Juni 2015, p 26.

<sup>24</sup> Almizan. "Distribusi Pendapatan:..." p. 69.

<sup>25</sup> Zubair Hasan, "Treatment of Consumption in Islamic Economics: An Appraisal". *Journal of King Abdulaziz University: Islamic Economics*, Vol. 18 No. 2, 2005, p. 35.

The perceived impact of consuming an item or commodity is the attachment of a value to the utility. In simple terms it can be said that when someone feels maximum satisfaction, the greater the utility that appears. The greater the utility for consumption of something, the greater the value of the goods.<sup>26</sup> However, of course, along with the difference in the level of someone's utility with others, the level of value of an item in the side of someone with others is different.

In other conditions, a person's utility level will experience a change when consuming an item in a certain frequency or amount of consumption. Because at certain limits, a person's utility level will tend to decrease. Under certain conditions, the level of utility can also increase. Changes experienced by a person related to the rise and fall of the level of utility to the addition and reduction of goods are known as marginal utility.<sup>27</sup> Meera and Mubasheera also gave an example of rice consumption patterns. A farmer will get the maximum utility level when consuming rice in the first bowl. Along with the addition of the amount of rice consumed, the level of utility when consuming rice in the second bowl, and so on, tends to decrease. Even when the consumption is excessive, the farmer tends to experience disutility, for example stomach aches.

The analogy is certainly a concrete example where a person consumes, even though he really needs a certain item or commodity, the expected level of utility or satisfaction tends to decrease along with the increase in the number of goods or commodities. In fact, the excess consumption of these goods can have a negative effect (disutility) for those who consume them. This is why Islam forbids *israf* (extravagance even in lawful things) and *tabdhīr* (consumption in unlawful things like liquor, for instance) in consumption.

## Methodology

This article is a qualitative research that is carried out through a process of revealing logically, systematically, and empirically to the social phenomena that occur around to be reconstructed to reveal the truth, and benefit the lives of society and science.<sup>28</sup>

This study uses documentation method where in digging up information, the author refers to the data collected from various

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<sup>26</sup> Ahmed Kameel Mydin Meera, *et.al.* "Revisiting The Concepts of Money...", p. 35.

<sup>27</sup> *Ibid.*

<sup>28</sup> Iskandar, *Metode Penelitian Kualitatif*. (Jakarta: Gaung Persada Press, 2009), p. 53.

primary and secondary data sources such as books, scientific journals, various writings in the media, and various relevant sources and literature related to zakah and its effects against utilities and income distribution. This method is carried out through a library research approach.

## Result and Analysis

### Zakah: Penalty Scheme for Idle Assets

Islam considers that assets that are left idle and unproductive are not good. In contrast to the secular economic system that provides freedom for property owners to make deposits that are not invested. Islam places a penalty system on property that is left idle and not invested. The penalty system is zakah that must be issued if during the year the property is left to settle and is not productive.<sup>29</sup>

Khan explains that property that is left to settle, if it has passed a year, and has reached the minimum limit (*nisab*) will be subject to a penalty in the form of the obligation to issue zakah. And it can be ascertained, if these conditions continue continuously, then the assets owned will gradually be eroded and reduced by zakah by 2.5% per year.<sup>30</sup>

The order to circulate the property was also conveyed by the Messenger of Allah through his hadith about the command to circulate the wealth of the orphans. The process of circulating the property is explained by the Messenger of Allah by the way of trading the property so that it earns a profit. Thus, these assets will not be exhausted by zakah.<sup>31</sup>

Qardhawi also affirmed that zakah is the right to understand that the obligation has not fallen despite passing years if the zakah has not been paid. So, it can be concluded that the zakah that has not been paid will become debt that continues to be dependent as long as it has not been repaid. Because zakah is a religious obligation that must be paid from the share of basic assets and production. Mathematically, the calculation of zakah is carried out by combining the levies on net assets (basic assets) and production levies.<sup>32</sup>

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<sup>29</sup> M. Fahim Khan, "Macro Consumption Function...", p. 21.

<sup>30</sup> *Ibid.*

<sup>31</sup> Muhammad bin Shalih al-Utsaimin, *Sifat Zakat Nabi*, (Jakarta: Darus Sunnah Press, 2012)

<sup>32</sup> Salman Akhmed Shaikh, "Micro-foundations of Economic Behaviour in Islamic Economic," *International Journal of Islamic Economics and Finance Studies*, Vol. 3 No. 1, 2017, p. 161.

The calculation of zakah above shows that assets and income invested in a production business will also be subject to zakah for income earned. But of course it will not reduce the principal. In contrast to idle property that is subject to zakah, it will erode the value of its principal assets.

As an option for a Muslim to utilize his wealth and income, Khan (1984) gives three alternative choices: 1) let his property settle (hoard it) and pay zakah for the property 2.5% every year as a form of *infaq* in the way of Allah. As a consequence, the assets will be eroded by zakah. 2) Borrowing these assets in the form of *qard al-hasan*, by providing loans without interest and expecting rewards from Allah in the hereafter, and 3) investing these assets so that they can generate profits of at least 2.5% per year.

The three options offered above are the best solution in managing assets in Islam, so that the property owned by a person will not be allowed to settle and be left idle without producing a return or production, or even continue to be eroded and reduced.

### The Circulation of Wealth and Income

Islam does not want assets and income earned by a Muslim to be allowed to settle without results. In fact, through zakah instruments, Islam imposes penalties on property that reaches *nisab*, but is left unproductive. This indicates that Islam places great emphasis on spinning assets and income. So that it is not allowed to settle on one party or class.

*“Whatever (of) the spoils given by Allah to His apostles, which are from the inhabitants of the cities, it is for Allah, for the Messenger of Allah, the relatives, the orphans, the poor and the people who are in travel. So that the property must not only circulate among the rich people among you. (Surah Al Hashr: 7)*

Through this verse, Allah has confirmed the necessity of the circulation of wealth and income. So that the property is not only circulated among a handful of people, or just revolves around the rich. Katsir<sup>33</sup> in his *tafsir* explains that the verse confirms that wealth should not be controlled by rich people. Especially with the greediness that exists, they spend the property without being given the slightest portion to the poor.

Circulation of wealth and income will occur when the balance

<sup>33</sup> Imaduddin Abul Fida 'Ismail bin Umar, *Tafsir Ibnu Katsir (terj.)*, (Jakarta: Pustaka Imam Asy-Syafi'i, 2008)

between production and consumption runs in balance. With the concept of zakah as a penalty for property that settles and does not spin, indirectly Islam has directed and encouraged people to work and try and make their possessions more productive. So that when he has got the results or profits from his work and business, as evidenced by the increase in assets and income he has, then the property will be subject to zakah on his income, without reducing the principal.<sup>34</sup> This concept will certainly encourage a Muslim to increase his productivity, especially he is still at a young and productive age. As the Messenger of Allah strongly encouraged people to work by calling "work with their own hands" as the main work.

The concept of wealth and income circulation is a distinguishing characteristic in the Islamic economic system, compared to other economic systems. Islam regulates the allocation of resources with various mechanisms and methods. This is because the basis of such circulation, is not only based on economic foundation, but also based on moral, ethical and social.<sup>35</sup>

Furthermore Rahim explained as quoted from N. M. Ghifari, that a vast circulation of wealth is one of the objectives of the social security system in Islam. In addition, other objectives in the social security system in Islam include the prohibition on centralizing property on the one hand, reducing poverty, creating a balance between individualism and collectivism, and also realizing social justice.<sup>36</sup>

A study of cases of hunger in Bengal was carried out by Nobel Laureate, Sen. From the study found the fact that the main cause of the hunger is not a lack of resources. But it is more due to the unfair distribution of available resources. Similar conditions also occur in various poor countries.<sup>37</sup> This is the fact that when wealth and income do not experience a fair and equitable circulation, these conditions will lead to economic and social problems.

Islam guarantees the circulation of wealth and income earned by a Muslim. One of them is through the mechanism of zakah on income. Mannan explains that wealth and income earned by a Muslim are the result of the application of the skills possessed

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<sup>34</sup> Ika Yunia Fauzia, et.al., *Prinsip Dasar Ekonomi Islam...*, p. 42.

<sup>35</sup> Shafinah Begum Abdul Rahim, "A Conceptual Framework of Distributive..." p. 21.

<sup>36</sup> *Ibid.*

<sup>37</sup> Salman Akhmed Shaikh, "Micro-foundations of Economic Behaviour in Islamic..." p. 161.

by the resources provided by Allah. For that, from the results obtained, a Muslim is required to distribute some of the results to three groups, workers, financiers, and the community. The portion given to the community is done through zakah instruments.<sup>38</sup> This is the pattern of circulation of wealth and income introduced by the Islamic economic system.

In the management of zakah itself, when the collected zakah is not well distributed, this becomes an indicator of the level of efficiency of the financial performance of the zakah institution. Because it is undeniable, that when efficiency in the distribution of zakah does not materialize, then the trust of the public to pay zakah through the zakah institution will decrease.<sup>39</sup> This will encourage zakah institutions to be more optimal in distributing collected zakah. So that the goals and targets of zakah can be realized well.

### **Islamic Approach on the Right and Income Distribution**

Islam has regulated that the wealth circulates among the people fairly and evenly. Because Islam considers that human beings besides him are economic actors, but he is also a trustee.<sup>40</sup> So that wealth and income are not centered on one particular group. With a fair circulation, the gap in the community will be reduced. Even this is believed to be able to overcome various economic and social problems.

It is *sunnatullah* if there are economic differences and disparities between the people as economic actors. With a foundation and spiritual motives echoed by Islam, the mechanism for distributing income is done on the basis of mutual help. For those who have an excess of wealth will help their siblings who experience shortages<sup>41</sup>.

The Islamic approach to distribution departs from its main foundation, monotheism. Where the implication of monotheism is the recognition that absolute ownership is in Allah. Thus, every individual human has equal rights to His gifts. Then the distribution

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<sup>38</sup> Kabiru Isa Dandago, *et.al.*, "Behavioral Intention to Pay Zakah on Employment Income Among Academicians in Kano State, Nigeria". *Journal of Islamic Monetary Economics and Finance*, Vol. 2 No. 1 2016, p. 47

<sup>39</sup> Norlizawati Abd Rahman, *et.al.*, "A Review of Board of Director, Shariah Supervisory Board and Zakat Distribution Performance in Malaysia". *International Journal of Academic Research in Business and Social Sciences*, Vol. 8 No. 2, 2018, p. 789.

<sup>40</sup> Ika Prastyaningsih, *et.al.*, "Paradigma Ekonomi Syariah Dalam Fahaman Hegemoni Kapitalisme dan Sosialisme Sebuah Solusi Pola Hidup Muslim". *Islamic Economics Journal*, Vol. 3 No. 2 Desember 2017, p. 185.

<sup>41</sup> Almizan. "Distribusi Pendapatan:...", p. 71.

of income in Islam, essentially is to guarantee that every individual community gets what is their rights.<sup>42</sup> This concept is also reinforced by the emphasis that in a Muslim's income there is the right of Allah and the rights of His messenger, which are represented as the rights of his fellow Muslims. When someone gives some of his wealth to someone else who is poor, then in fact he has fulfilled Allah's right to his property. This is the basis for building a social security system<sup>43</sup>.

The description above shows that zakah is an important instrument in Islam to build and maintain social justice. Besides zakah functioning as a protector of property owners from spiritual poverty, zakah also protects the rights of every individual, the rights of those who are rich, and the rights of those who are poor.<sup>44</sup> Because zakah is basically the right itself, the rights of the poor and other *mustahik* groups. Therefore zakah is referred to as *hak mamlūm* to be defined by Allah, where zakah is the right that has been determined by the amount, to be taken by the predetermined group (*muzaki*), and given to certain groups called *mustahik*.<sup>45</sup>

*"And the people who have the right to understand (certain parts) for their (poor) people who ask and those who do not have anything (who do not want to ask)". (Surat al-Ma'arij: 24-25)*

The resources available in nature can be utilized by every human being. As long as humans do not interfere with other people's rights or state's rights. So the right to have something is an instinctive problem that is always attached to humans, because it involves the continuity of life. Islam recognizes property rights, because this right is a representation of our responsibilities as caliphs on earth.<sup>46</sup>

Indeed, zakah guarantees social rights and social welfare of the people. These two things are the right of two parties, zakah payer (*muzakki*) and recipient of zakah (*mustahiq*). Because the purpose of zakah is to guarantee the fulfillment of the basic needs of the poor and realize fair social welfare in society.<sup>47</sup>

<sup>42</sup> Shafinah Begum Abdul Rahim, "A Conceptual Framework of Distributive...", p. 29.

<sup>43</sup> Almizan. "Distribusi Pendapatan...", p. 70.

<sup>44</sup> Kabiru Isa Dandago, *et.al.*, "Behavioral Intention to Pay Zakah...", p. 49.

<sup>45</sup> Yusuf Qardhawi, *Shadaqah, Cara Islam Mengentaskan Kemiskinan*. (Bandung: PT. Remaja Rosda Karya, 2010), p. 59.

<sup>46</sup> Shafinah Begum Abdul Rahim, "A Conceptual Framework of Distributive...", p. 25.

<sup>47</sup> M. Ashraf Al Haq, *et.al.*, "Effective Zakat Distribution: Highlighting Few Issues and Gaps in Kedah, Malaysia," *Al-Iqtishad: Journal of Islamic Economics*, Vol. 9 No. 2 July 2017, p. 263.

However, it is unfortunate that from several studies conducted, it is known that there are still many Muslims who are reluctant to pay their zakat. Or there are also those who pay their zakat directly, and not through the amil zakat institution. This has an impact on the realization of the potential of national zakat that is not significant.<sup>48</sup>

### Utility: The Main Motives in Consumption

There is a fundamental opinion between the concept of consumption for a Muslim and non-Muslim. Where consumption for a Muslim must be based on faith. Because faith will affect the nature, quantity, and quality of consumption of a Muslim.<sup>49</sup>

Unconsciously, someone is able to determine the choice of the many choices of goods and services offered. Imam al Ghazali, a Muslim scientist, has been able to formulate one's welfare and utility functions. The utility function is what determines a person can choose one type of goods or services from various choices. So that one type of item chosen is preferred from other goods or services. This is the initial concept which states that consumption is strongly influenced by utility functions.<sup>50</sup>

Opinions and arguments stating that consumers intend to maximize utility or satisfaction in consumption, indicate that all goods and services have a common denominator, called utility. Where utility or satisfaction can be measured or at least comparable with others.<sup>51</sup>

Contemporary economists believe that consumers decide on their own consumption patterns. They formulate that consumer behavior is related to several premises. Khan describes some of the premises as follows:

- a. It is assumed that a consumer decides what to consume and how much, just to get benefits and material satisfaction.
- b. It is generally assumed that a person consumes only to fulfill his own needs without thinking about what is the needs of others.

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<sup>48</sup> Royyan Romdhoni Djayusman, *et.al.*, "Analisis Strategi Penghimpunan Dana Zakat, Infak, dan Sedekah (Studi Kasus di LAZ Ummat Sejahtera Ponorogo)." *Islamic Economics Journal*, Vol. 3 No. 1 Juni 2017, p. 64.

<sup>49</sup> Miftahul Huda, "Indikator Perilaku Konsumen Dalam Memenuhi Kebutuhan Primer (Studi Masalah Imam Al-Ghazali Kitab Al Mustasfa Min 'Ilm Ushul)". *Islamic Economics Journal*, Vol. 3 No. 2 Desember 2017, p. 211.

<sup>50</sup> Adiwarmar Karim, *Sejarah Pemikiran Ekonomi Islam*, (Jakarta: Rajawali Press, 2010), p. 77.

<sup>51</sup> Zubair Hasan, "Treatment of Consumption in Islamic Economics:...", p. 32.



- c. It is assumed that consumers behave rationally, including: 1) consumers will not be miserly, or make savings on unnecessary expenses, and 2) consumers will not hoard their wealth.

In Islamic economics, a consumer should spend his wealth in two types of expenditure: 1) for the material needs of himself and his family, and 2) to meet the needs of others which are expenditures for the benefit of Allah.

Khan then formulates if the fulfillment of personal and family needs is denoted by  $E_1$ , and the fulfillment of the needs of others is denoted by  $E_2$ , the total expenditure ( $E$ ) can be explained by the formula  $E = E_1 + E_2$ . The formula describes how an ideal Muslim consumes. A Muslim consumer will be able to reach the expected level of utility, when he purchases his wealth, not only to meet the needs of his life alone and his family. However, he is also required to meet the needs of others, as a form of treasure in Allah's way.<sup>52</sup>

In addition, Islam provides restrictions on meeting needs through income sources that are forbidden according to the Sharia, including the practice of bribery, seizing other people's property, fraud, theft and robbery, gambling, businesses related to illicit goods, and bank interest.<sup>53</sup> Revenues obtained through prohibited practices are prohibited to be used or consumed.

The limitations mentioned above, explained by Ibn Sina as an important thing that must be considered by humans. Because when someone expects blessing, then he must try to achieve it before consumption is done. So he must work well, so that he gets good income and blessings. Then, he will also spend some of the income in a good way too.<sup>54</sup> So that, blessings will be achieved by a Muslim.

Basically, it is very well understood that every human being will need goods and services to fulfill their needs. Muslim scientists also distinguish between needs and wants, where they classify needs into three categories as described previously, namely *ḍarūriyah*, *hajiyyah*, and *tahṣiniyyah*.

The focus of attention related to the needs classification is the goods consumed to fulfill each category of needs. Each human individual will basically have relatively similar needs related to the three classification needs above. But their level of satisfaction will be different, along with various levels of scale and type of goods

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<sup>52</sup> M. Fahim Khan, "Macro Consumption Function...", p. 23.

<sup>53</sup> Salman Akhmed Shaikh, "Micro-foundations of Economic Behaviour in Islamic...", p. 162.

<sup>54</sup> Ika Yunia Fauzia, et.al., *Prinsip Dasar Ekonomi Islam...*, p. 51.

consumed.<sup>55</sup>

A consumer is a rational creature. He will try to maximize his satisfaction from the income he earns. Several theories and approaches have been widely used to explain the process of achieving these consumption goals. And they stick to their goals, namely maximizing satisfaction.<sup>56</sup>

Hasan also reminded that one thing to watch out for is when utilities become the only goal in consumption. Human's wants that tend to be unlimited will encourage humans to enter the behavior of consumerism. The impact is that consumerism will encourage people to become selfish creatures, which ultimately leads to frustration and futility.

### **How does Zakah Increase the Utility?**

Karim proposed a very basic question related to zakah and consumption. The thing that was asked was whether the zakah paid by a Muslim would reduce his utility, or even increase his utility?

Ghassan mentions that there are several theoretical papers that have discussed and analyzed consumer behavior through the perspective of Islamic economics. As he cites the opinion of Kahf which states the assumption that a Muslim always directs his consumption to efforts to increase his utility in the world, also in the hereafter<sup>57</sup>. This is a unique style related to the concept of utility in Islamic economics.

When compared to conventional economic systems, most of the literature only uses present-aim as a rational definition. Even self-interest seems to be neglected and considered an exogenous variable. Because in the definition of present-aim, the thing that is considered important is how to achieve goals efficiently without questioning what and how it is intended. In contrast to self-interest which assumes motives and intentions that encourage a consumer to do a consumption act.<sup>58</sup>

Karim further explained that rationality in self-interest can explain the behavior of giving donations, *zakah*, *infaq*, and other helping actions. For example, when Ahmad got an income, Ahmad not only thought about his income, but also thought about the

<sup>55</sup> Zubair Hasan, "Treatment of Consumption in Islamic Economics:...", p. 36.

<sup>56</sup> *Ibid.*

<sup>57</sup> Hassan B. Ghassan, "A Consumer and Social Welfare Model Based on The Writings of Shibani (750-805 AD , 131-189 AH)," *PSL Quarterly Review*, Vol. 69 No. 278, 2016, p. 250.

<sup>58</sup> Adiwarman Azwar Karim, *Sejarah Pemikiran Ekonomi Islam...*, p. 72.

income of his neighbor, Gani. Mathematically, the formula for measuring Ahmad's utility level is:  $U_a = f(M_a, M_g)$  where:  $U_a$  for Ahmad utilities,  $M_a$  as Ahmad income, and  $M_g$  as Gani's income.<sup>59</sup>

In the above conditions, Ahmad will experience a decrease in income because he has to pay zakah to Gani. However, the decline in income for Ahmad is one thing that can be tolerated. Because of the decline in income, it has implications for Gani's income increase. With the utility function approach, Karim explains that Ahmad's condition is diminishing MRS, which means that the greater Ahmad's income, the greater the donation (in the form of zakah or *infaq*) Ahmad wants to give to Gani, so that Gani's income increases. What Ahmad did was essentially a manifestation of a Muslim's adherence to his religious teachings, namely helping others.<sup>60</sup>

Islam teaches consumption patterns that are oriented to the hereafter. With the orientation of the hereafter applied to consumption, there will be an even distribution of human welfare. Because Islam strongly emphasizes the attitude of mutual help to each other by being analogous as unity in one body<sup>61</sup>.

The motive of a Muslim in all things is worship to Allah. Then the consumption by a Muslim will certainly be directed to the motivation for worship to Allah. With confidence in such religious values, the utility of Muslim consumers is not only measured by the level of utility in the world, but also by increasing its greater utility in the hereafter<sup>62</sup>. This argument is a manifestation of the form of worship to Allah in consumption.

This concept and argument will encourage rich Muslims to pay zakah. Including also encouraging him to practice other voluntary *sadaqah*. Although in reality it reduces the amount of consumption and income, but with confidence in the adherence to the teachings of Islam through zakah payment, the level of utility will increase, even at the same time will increase the utility of poor consumers who are recipients of zakah.

Islamic values in consumption always encourage Muslim consumers to avoid *israf* and *tabzeer*. If in other economic systems, consumers are given the freedom to decide related to spending on wealth, the Islamic economic system regulates it to maintain politeness and balance in consumption. In addition to spending on

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<sup>59</sup> *Ibid.*

<sup>60</sup> *Ibid.*

<sup>61</sup> Ika Yunia Fauzia, et.al., *Prinsip Dasar Ekonomi Islam...*, p. 54.

<sup>62</sup> Hassan B. Ghassan, "A Consumer and Social Welfare Model...", p. 253.

consumption, Islam encourages Muslim consumers to set aside some of the assets to be issued in the form of social charities, such as zakah.

As compensation for the zakah payment, Allah has promised a great reward for those who do social charities such as zakah<sup>63</sup>. This reward will increase the utility of Muslim consumers, specifically utilities in the hereafter. Utilities for consumption sacrifice made after fulfilling personal and family needs, in order to provide social charities such as zakah.

### **Implications of Zakah in Increasing Utility and Fair Income Distribution**

Zakah is a mandatory worship for every Muslim who meets certain criteria. As one of the pillars of Islam, of course a Muslim will carry it out as a representation of *taqwa* and his faith in Allah. It is this belief that encourages a Muslim who is given excess property to pay zakah. In an economic point of view, a consumer will target the maximum level of utility in consumption. However, for a Muslim, the targeted utility is not only in the form of worldly utilities, but also targets utilities in the hereafter. This is what Shaikh calls an interesting thing from the Islamic economic system.<sup>64</sup>

The Islamic economic system is able to combine the reduction of marginal utility of rich consumers through the distribution of income to the poor. The increase in the utility of wealthy consumers is due to the blessing that Allah has bestowed on giving his wealth to the poor. Because Islam assures Muslim consumers that the reduced wealth and consumption due to zakah will be rewarded by Allah with blessings and rewards that multiply.

“And whatever you are giving in the wealth of people will not increase with Allah. But what do you give in zakah, desiring the countenance of Allah, those are the multipliers.” (Surah Ar-Rum: 39)

From the above verse, it appears that zakah will provide additional utility for Muslim consumers who pay zakah. That is the utility of the reward that will be obtained in the hereafter. Although in reality, the assets owned are reduced after paying zakah.

Utilities that are formed for a rich consumer from the payment of zakah, will also have an impact on increasing the utility of the poor who experience lack of wealth. The utility of the poor will

<sup>63</sup> Salman Akhmed Shaikh, “Micro-foundations of Economic Behaviour in Islamic...,” p. 165.

<sup>64</sup> *Ibid.*

increase after he receives zakah for consumption. With the zakah received, the poor person (*mustahiq*) is able to fulfill his needs which has an impact on increasing his utility. This combination of utilities is what makes the Islamic economic system unique and interesting. In other words, zakah can increase the utility of two parties at once, the rich people who pay zakah and the poor people who receive zakah. The argument is in accordance with what is quoted from Ahmad. He mentioned that economically, zakah will increase economic prosperity. Because zakah is paid by those who have a surplus of wealth, to those who are deficit (poor). This certainly will increase the purchasing power of the poor, so that it has a direct impact on increasing demand for goods.<sup>65</sup>

If summarized using the profit classification written by Shibani, it is found that zakah can increase the marginal propensity to consume (MPC) or the marginal tendency to consume in aggregate. Because zakah is an instrument capable of transferring income from low MPC groups (rich people) to high MPC (poor people) community groups.<sup>66</sup>

The process of transferring income and distribution of economic resources according to Sadr is the main step to eliminate contradictions in the economic structure of society. Because the main problems faced in relation to economic wealth are natural resources in an environment with unfair distribution that begins with ownership of these resources.<sup>67</sup>

The applied mechanism of zakah will have a significant impact on income redistribution. The implementation of income redistribution in the form of zakah will increase lower income in the (poor) society. When the zakah mechanism is monitored directly by local authorities, it will be able to improve the standard of living of the poor by increasing their purchasing power and stimulating economic growth. With this mechanism, income inequality will decrease, so that it will be able to increase utilities at all levels of society and improve the quality of their lives.<sup>68</sup>

Qardhawi states that currently zakah assets are growing. Not only limited to money, gold and silver, as well as livestock, but develops to high-value contemporary assets such as deposits,

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<sup>65</sup> Nur Barizah Abu Bakar, *et.al.*, "A Comparative Study of Zakah...", p. 38.

<sup>66</sup> Hassan B Ghassan, "A Consumer and Social Welfare Model...", p. 251.

<sup>67</sup> Shafinah Begum Abdul Rahim, "A Conceptual Framework of Distributive...", p. 29.

<sup>68</sup> Hassan B Ghassan, "A Consumer and Social Welfare Model...", p. 252.

stocks, and other securities. This development continues to ensure that every community continues to get its rights so that it does not suffer because of unfair income distribution practices.<sup>69</sup>

Various zakah institutions are increasingly aggressively conducting socialization and preaching zakah through various media, including digital media and social media. This is certainly done to make it easier for people to access information related to zakah and its management from zakah institutions.<sup>70</sup> With the incessant collection of zakah, then the collected zakah is expected to be able to fulfill the rights of the *mustahiq* to be distributed.

The influence and impact of zakah on income distribution and social welfare is very real. A study conducted by Beik & Arsyianti found the fact that zakah can be used as an instrument to alleviate poverty and improve social welfare. They also recommended that government policies related to zakah be integrated with policies on poverty. Because the integrity of zakah with national economic policies is very necessary. Even the Qur'an explicitly mentions there are three important sectors in the economy, namely buying and selling (real sector), financial and monetary sectors, as well as zakah, *infaq* and *shadaqah*.<sup>71</sup>

From the description related to the impact of zakah on utilities above, it appears that a Muslim who has an income, on the basis of faith and obedience to Allah, he will be compelled to pay zakah. Because zakah is one of the obligatory pillars of Islam. The behavior of paying zakah is a self interest for him, with the intention that he gets the pleasure of Allah and the reward which is doubled from the zakah paid. This behavior will have an impact on increasing the Muslim utility. Where as a Muslim, he is not only pursuing worldly utilities, but also utility of hereafter through zakah payment. So, even though zakah has an impact on decreasing the level of income, it actually increases its utility.

This phenomenon continues when viewed from the utility function which shows diminishing MRS (as in the case of Ahmad). This means that zakah paid by a Muslim will increase his motivation to return to pay zakah when reaching a higher level of income. So that the higher the income earned, the greater the amount of zakah

<sup>69</sup> Nur Barizah Abu Bakar, *et.al.* "A Comparative Study of Zakah...", p. 39.

<sup>70</sup> Dian Purnamasari, *et.al.*, "Analisis Strategi Penghimpunan Zakat Dengan Pendekatan Business Model Canvas". *Human Falah*, Vol. 4 No. 2 Desember 2017, p. 265.

<sup>71</sup> Nova Rini, *et.al.*, "Peran Dana Zakat dalam Mengurangi Ketimpangan Pendapatan dan Kemiskinan," *Ekuitas: Jurnal Ekonomi Dan Keuangan*, Vol. 1 February 2017, p. 112.

paid.

Through the motivation of a strong Muslim to always pay zakah, the level of income achieved will always be distributed to poor people in need. This is a picture of a fair distribution of income. Thus, when the income earned by the rich is increasing, the amount of income distributed through zakah instruments will also increase. So that this will increase the purchasing power of the poor in order to fulfill their living needs. This is where equitable social welfare can be realized.

## Conclusion

The idle assets phenomenon is a fact that must be avoided. Islam encourages people to circulate their assets and wealth with various economic activities including trade. As an anticipatory step, Islam imposes a penalty system on unemployed wealth through zakah instruments. With the urge to circulate the wealth, so that the property is not only circulating among a handful of community groups. However, it can be distributed to all levels of society.

Islam emphasizes the rights of others to property. This paradigm will encourage rich people to pay zakah, to purify their wealth from the rights of others in the property. In addition, Islam asserts that one's utility is not only measured by worldliness, but also accompanied by utility of hereafter. The mechanism of zakah promoted by Islam is believed to be able to increase these two types of utilities for a Muslim.

Increasing utility to a Muslim when receiving income and consuming, will encourage him to always pay zakah. These actions will increase the purchasing power of the poor who receive zakah. So that they are able to fulfill their needs. This is where zakah serves as a driving factor in increasing the utility of the rich and poor at the same time.

Payment of zakah by the rich is a concrete step of redistribution of income taught by Islam. So that wealth and income will be able to be distributed to all levels of society. These conditions are what ultimately can bring about equal distribution of people's welfare.

From the results of this study, it is expected that the government (executive) and DPR (legislative), to better support the zakah management program. The support provided can be in the form of regulations and rules that favor professionalism and improve the quality of zakah management. Thus, zakah which is managed

professionally and trustworthy, will be able to play its role in realizing more optimal income redistribution and the broader social welfare distribution.

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