Policy Blindness and People’s Welfare

After 250 years of unbridled pursuit of laissez-faire, cross-border free trade via open economy theories and unbridled capitalism over the last four decades, a watershed appears to have been reached at the start of the 21st century. Mercantilism of the 18-19th centuries gave way to an open economy model of tiger trade in goods and services. The last 45 years saw the dismantling of barriers to financial trade as well. These moves have led to unbridled private pursuit of wealth creation supposedly meant to lead to greater human welfare. Despite the creation of wealth, the dismantling of laws since the Reagan-Thatcher brand of capitalism took root, the welfare inequality has gone to the level existing some 180 years ago; see The Economist (October, 2012). Wealth inequality has started to widen since the 1980s to a level which is reversing a fair degree of prosperity of the middle-class as once shared in all countries that had worked to reduce inequality.

Wealth maximization has become a mantra for managing the resources of the world in favour of the ones who hold power. Naked capitalism now becomes entrenched with no counterbalancing power groups so that wealth holders can demand dismantling of barriers to creating more wealth. For a time, the unbridled borrowing power of governments kept some level of welfare support by more borrowing until the debt burden has now become so great that the working governments kept some level of welfare support by more borrowing until the debt burden has now become so great that the working governments kept some level of welfare support. For fear the rulers would want deviations of Islamic practices to be introduced, Waqf assets endowed to the mosques are used over centuries to gain income to support community activities feeding the poor, paying and housing the prayer leader, maxing food needs at times of famines and wars, etc, all of which are centred around the mosque. The government is not involved except in regulating the proper control of the waqf assets for the intended purposes as trusts.

Zakat and Waqf are two instruments that are people-based such that governments need not boost their fiscal burden through welfare-demanding debt-taking. The obedience of moral man to an apparent society-friendly exhortation to give alms creates community efforts to support basic welfare without resorting to government. The purpose of the government then becomes law and order, regulating how peace and prosperity could co-exist.

Waqf as a Tool for Capital Management

Waqf, a form of continuous charity (sadaqah jariyah), is created by donating an asset (property or cash) that produces benefits/revenues for a targeted objective on an infinite basis.

Through a deed, the founder (waqif) determines the objectives for which the waqf can be used and the modes of distributing its fruits, services and revenues. The founder determines the waqf management and process of succession of managers allowed to impose any restrictions or qualifications he/she likes on his/her waqf. Most waqfs are perpetual and very often so emphasized in the waqf deeds. While the cash waqf dates back to as early as the turn of the first century of Hijrah, [i.e. 671 AD] most of awqafs established are real-estate based.

In Malaysia, there are property-based (both movable and immovable) Waqfs and Cash Waqfs though the former has a longer history. Cash waqfs currently exist in Johor and the Federal Territory in the form of cash funds and bank accounts (Nuraini, 1991). The revenues of the state Religious Departments are partially from waqf revenues from investments (25%) in the Islamic Bank Malaysia and the Takala Co. The returns generated by the Islamic bank belongs to the religious department and used for the benefit of the Muslim community.

There is no federal law subjecting all waqfs to the same rules and regulations and therefore each state has its own laws on this institution. The lack of a coherent system to manage Waqfs is the direct consequences of the British colonisers, who introduced laws that fragmented the private land holdings (so the colonisers could purchase the land later to form plantations). The Malay responded by forming family waqfs that inhibited the British attempts to purchase the land and created great hostility to the waqfs leading to introduction of new laws that made the family waqfs null and void. Alhabshi (1998) explains the colonial rule reduced the role of Islam from a way of life to just a religious belief and took charge of everything except matters pertaining to religion.

The federal and state governments need to oversee the proper development and management of waqf properties by, among others, having a proper governance structure accountable to the beneficiaries. One potential use of Waqfs in Malaysia is to facilitate the development of the Small and Medium Enterprise sector. Small and medium enterprises (SMEs) are vital for economic growth, employment and social stability. SMEs currently contribute to more than 30% of GDP. Despite their economic importance, they face financing constraints from conventional collateral-based financing. Conventional financial institutions perceive small and medium enterprises as risky and they usually demand either collateral or some form of guarantee before they provide the required financing, which in most cases the SMEs lack.

Conclusion

Globalization and unbridled pursuit of profits under today’s capitalism has brought so much wealth creation in modern societies. This paper brings forth in brief the possibility of bringing order to this chaos through the active pursuit by the rulers of the two important concepts of Islamic wealth management and Waqf with proper guidelines and enforcement. The current state of leaving these matters as self-managed ideas would not lead to amelioration of the conditions. In fact, 70% of the poor are found in the 56 majority Muslim countries, which means that these twin ideas that could have been grasped by the rulers to ameliorate such poverty is not being seized upon as acceptable reforms. The potential users of the waqf system should be seized upon to develop a plan to use the dormant assets to expand economic activities at the local level, beyond the mosque management.