

Zakat Effect on Aggregate Consumption in Islamic Economy in Cirebon

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Abstract

Zakat is a tax collected from Muslim rich people to help the poor Muslim community . Results of research conducted at BAZNAS Cirebon shows that the effect of zakat can have an effect on aggregate consumption. The MPC (Marginal Propensity to Consume) value obtained for muzakki is 0.46 and mustahik is 0.76. It shows that the mustahik MPC is greater than the muzakki MPC, meaning that there is an increase in aggregate consumption due to the large change in mustahik's income. Wealthy groups who pay zakat are more stable than other rich groups who do not pay zakat, this can be seen when the income of muzakki and other rich groups is the same, the MPC values are different , namely $MPC_Z = 0.4$ and $MPC_K = 0.7$. The value of MPC_Z muzakki (zakat) is closer to zero than MPC_K muzakki (non-zakat) which is close to one, meaning that the consumption of muzakki (zakat) is more stable. This shows that the increase in aggregate consumption in the Islamic economy is better than the conventional economy.

Keywords: *Zakat effect, aggregate consumption, MPC*

1. Introduction

Islam is a perfect religion, which regulates various aspects of human life. Both in the aspects of education, social, politics, art, culture, and so on. Even in the economic aspect, Islam has regulated it, whether it is individual, community, or national. The economy of a country will run well and directed if it applies the rules of the Koran and Hadith. The Qur'an has explained in detail the principles in economics (Chaudhry, 2012).

One of the economic principles in Islam is zakat. Zakat is one of the fiscal instruments in the economy that has been used by Islamic governments from the time of the Prophet Muhammad until the end of the Islamic caliphate (Fauzia, 2014). Zakat is not only imposed on wealth, but on income as well (Hasan, 2008). According to Law Number 38 of 1999 Article 1 Paragraph 2 states that what is meant by zakat is property that must be set aside by a Muslim to be given to people who are entitled to receive it (Rianto, 2010). Broadly speaking, there are two types of zakat, namely zakat fitrah issued in the month of Ramadan and zakat maal or zakat assets issued from assets owned based on certain requirements.

Research (Metwally, 1995) says that the modern understanding of zakat is a tax collected from rich Muslims which is intended to help the poor Muslim community. They are obliged to issue it with full sincerity to help people in trouble because in Islam fellow Muslims are taught to help each other. The Qur'an forbids the rich to be stingy and refutes the argument put forward by the miserly infidel that they can use their wealth for their own benefit without thinking of others. Because in wealth there are rights for others. As Allah SWT says in QS. Al-Isra: 26:

وَأَنْتَ ذَا الْقُرْبَىٰ حَقُّهُ وَالْمَسْكِينِ وَالْإِنِّ السَّبِيلِ وَلَنْ نُبْذِرَ تَبَذِيرًا

Meaning: "Give to close families their due, to the poor and those on a journey, and do not squander (your wealth) extravagantly. (QS. Al-Isra / 17: 26).

With the command to pay zakat in the Qur'an, consumer behavior in economic activities must also be in accordance with Islamic teachings, namely by issuing zakat to help others in need. Allah's commands in the Qur'an must be obeyed because actually in every command of Allah there must be a benefit. People who pay tithe can help people who are less able to fulfill their daily lives so that their aggregate consumption will increase. If there is an increase in aggregate consumption, the State 's income will also increase (Chapra, 2000).

The journal (Hidayat, 2015) says that with the increase in mustahik's income, the amount of consumption increases but the increase in consumption is smaller than the increase in income so that the Average Propensity to Consume (APC) and Marginal Provenity to Consume (MPC) decrease with an increase in income. However, the decline in APC is considered to be greater when compared to MPC at each income level.

The journal (Abdelbaki, 2014) says that the potential of zakat alone cannot eradicate poverty, but there must be other potential charities that can help in eradicating poverty in Egypt. This study recommends and requires legislation on the collection of zakat from various sectors, organizations and institutions as well as individuals. This study emphasizes the need for charities as a complementary tool in eradicating poverty, also recommends the Egyptian government monitor and control the process of collecting and distributing zakat to be given to those who are entitled to receive it, so that the effect of zakat on consumption can have a large effect on poverty levels. In the study (Iqbal,M., 1985) said that the marginal tendency to consume for zakat recipients was higher than zakat payers and the average tendency to be consumed was better in Islamic economics than conventional economics.

In research (Murniati, R, 2014) said that zakat has a positive role in increasing mustahik development in the city of Bogor. The results of the study indicate a decrease in the mustahik poverty level based on the four poverty indicators used, namely the headcount ratio index (H), poverty gap index (P1), income gap index (I), and Sen index of poverty (P2).

Based on several previous studies, this study will discuss the types of zakat maal with restrictions on professional zakat in educational institutions in accordance with the findings at the National Amil Zakat Agency (BAZNAS) Cirebon. As for the mustahik asnaf in this study, the needy and poor did not involve all mustahik asnaf. This study will also examine the effect of zakat on aggregate consumption in an Islamic economy, so that it is known the difference in the effect of zakat on the aggregate consumption of muzakki (zakat) and rich people who do not pay zakat (non-zakat).

2. Research Methods

This study uses a quantitative method , which is a research method that uses data in the form of numbers with added emphasis on measuring objective results . The data source uses data from BAZNAS with muzakki data obtained from Cirebon educational institutions in 2018 in the form of income from muzakki and rich people who do not pay tithe. In this study, the researcher examines the magnitude of the aggregate consumption of muzakki and the rich who do not pay zakat and compares the effect of zakat itself on aggregate consumption and finds out whether the increase in aggregate consumption in the Islamic economy is better than aggregate consumption in the conventional economy.

According to the conventional economic approach, in calculating national income, the income generated by households is the income side while household consumption expenditure is the expenditure side .(Huda, 2009) consumption function equation form :

$$C_K = a + bY \quad (1)$$

where the variable C_K is the level of consumption in a conventional economy, a is the amount of consumption if there is no income or the income level is equal to zero, b is the Marginal Provenity to Consume (MPC) or the marginal propensity to consume and Y is the national income

From the value of MPC in Islamic economics, it can be seen whether the effect of zakat can have an influence or not on aggregate consumption. Aggregate consumption in the Islamic economy is divided into two parts, namely the aggregate consumption of muzakki and the consumption of mustahik aggregates. This study uses data collection techniques with library research techniques in the form of secondary data from the National Development Planning Agency because what is used in this study is the income of muzakki and the rich who do not pay tithe.

3. Results and Discussion

For example C_K , as the level of aggregate consumption or consumption expenditure of the conventional rich , and Y is the gross income of the rich , so that the MPC of the rich in a conventional economy , MPC of K or b is:

$$MPC_K = b = \frac{C_K}{Y} \quad (2)$$

From the calculation of the data, the value of MPC K or b is 0.70. It can be concluded that the marginal propensity to consume for the rich is 0.70, meaning that for every change in income, it will change aggregate consumption by 70% (or 70% change in income is used for aggregate consumption). Suppose C_1 as the level of aggregate consumption or consumption expenditure of muzakki, Y as net income of muzakki, and Z as the amount of zakat that must be issued, then the variable b^* or MPC_Z is:

$$MPC_Z = b^* = \frac{C_1}{(\beta Y - Z)} \quad (3)$$

From the data calculation, the value of MPC Z or b^* obtained by 0.46. It can be concluded that the desire to consume is 0.46, meaning that for every change in income it will change muzakki aggregate consumption by 46% (or 46% change in income is used for aggregate consumption). For example, C_2 is the level of aggregate consumption or consumption expenditure of mustahik, $(1-\beta)Y$ is the initial income of mustahik, and Z is the amount of zakat received by mustahik, then δ^* or MPC_T is:

$$MPC_T = \delta^* = \frac{C_2}{[(1-\beta)Y+Z]} \quad (4)$$

From the calculation of the data, the value of MPC T or δ^* is 0.76 . It can be concluded that the marginal tendency to consume mustahik is 0.76 , meaning that for every change in income, it will change aggregate consumption by 76% (or 76% change in income is used for aggregate consumption). Based on the data and from equations (2) and (3), the MPC muzakki value (MPC_Z or b^*) is 0.46 or 46% and the MPC value for the rich group (MPC_K or b) is 0.70 or 70%. so it can be presented in Figure 1.

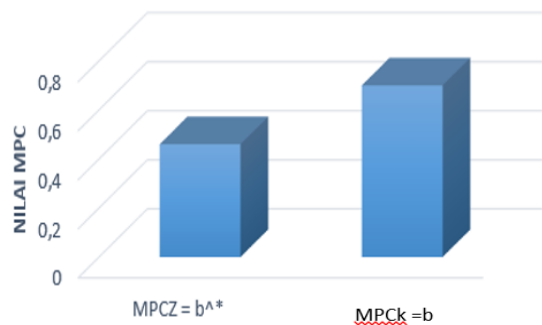


Figure 1. Muzakki MPC Value in Islamic Economy and Rich Groups in Conventional Economy

Based on Figure 1 , it can be concluded that the MPC value of muzakki in Islamic economics is lower than the rich group in the conventional economy, namely $0.46 < 0.70$ or it can be said $0 < b^* < b < 1$, meaning that the MPC of the group that pays zakat is lower than the group that pays zakat. who do not pay zakat so that the magnitude of the change in income to aggregate consumption is very low.

3.1. MPC Muzakki

Based on the data, the average value of muzakki consumption expenditure was obtained (C_1) = 83,579,306, zakat (Z) = 2,553,812, and infaq (I) = 2,553,812 so that the function of MPC is obtained with the following equation:

$$MPC_Z = \frac{C_1}{(\beta Y - Z)}$$

$$y = \frac{83.579.306}{x} \quad (5)$$

3.2. MPC Rich Class

Based on the data, the average value of consumption expenditure for the rich group (C_k) = 141,535,125 so that the function of the MPC is obtained with the following equation:

$$MPC_K = \frac{C_k}{Y}$$

$$y = \frac{141.535.125}{x} \quad (6)$$

3.3. MPC Mustahik

Based on the data, the average value of mustahik consumption expenditure (C_2) = 3,788,398, zakat (Z) = 2,234,586, Infaq (I) = 2,553,812, income (Y) = 185,731,792 so that the function of MPC is obtained with the following equation:

$$MPC_T = \frac{C_2}{(1-\beta)Y+Z}$$

$$y = 2.234.5860 + \frac{3.788.3980}{2x} \quad (7)$$

The following is also presented a combination of MPC charts of muzakki and the rich using equations (5) and (6) with the x-axis as the MPC value and the y-axis as income.

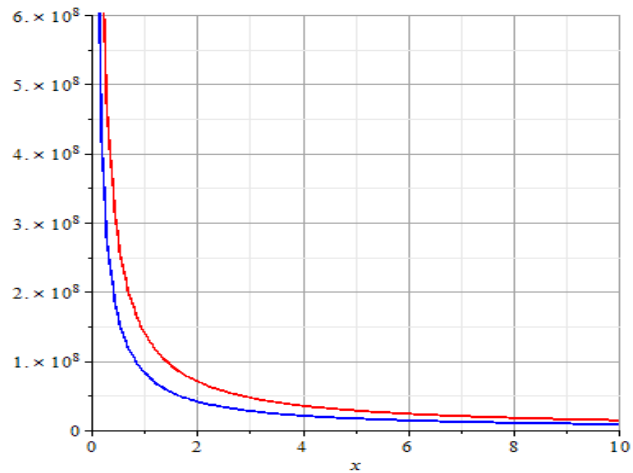


Figure 2 MPC Muzakki (blue) and Rich (red) charts

Based on Figure 2 when the income of muzakki and the rich group $Y = 5 \times 10^8$ with different MPC, namely $MPC_Z = 0.4$ and $MPC_K = 0.7$ with the value of MPC muzakki closer to zero. This shows that the MPC of muzakki is more stable so that the effect of zakat on muzakki can stabilize their desire to consume goods and services. Because some of his wealth is used for zakat, it is not used for personal gain.

After knowing the MPC graph of muzakki and the rich group, a general graph will also be made using equation (1) to find out how big the level of aggregate consumption is with the size of MPC so that the general form of the consumption function of muzakki and the rich group is $C_1 = 0.46Y$ and $C_K = 0.7Y$ with the x-axis as income (Y) and the y-axis as consumption expenditure (C) in Figure 3.

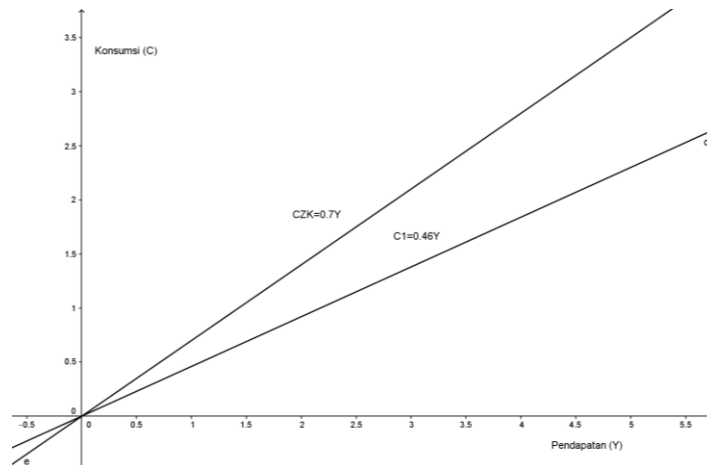


Figure 3 General Forms of the Consumption Function of Muzakki and the Rich

Based on Figure 3, it can be shown that the larger the MPC of the rich, the higher their consumption expenditure. However, the amount of muzakki consumption expenditure is more stable because the behavior of muzakki consumption is in accordance with Islamic economic principles when a consumer prioritizes consumption for worship rather than worldly consumption. Based on the data and equations (3) and (4), the MPC value of muzakki (MPC_Z or b^*) is 0.46 or 46% and the value of MPC mustahik (MPC_T or $*$) is 0.76 or 76% so that can be presented in Figure 4.

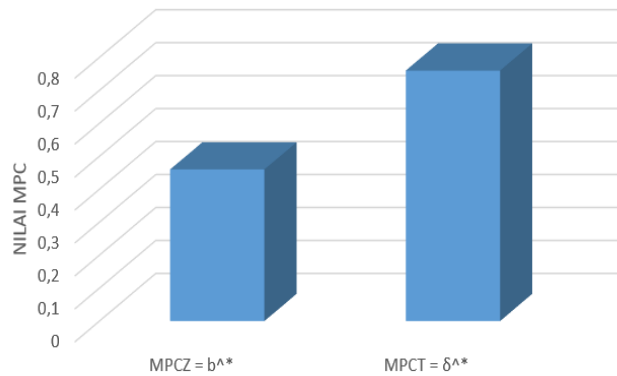


Figure 4 MPC Muzakki and Mustahik Values in Islamic Economics

Based on Figure 4 it can be concluded that the mustahik MPC value is higher than the muzakki MPC value, namely $0.76 > 0.46$ or it can be said $0 < b^* < \delta^* < 1$, meaning that the desire to consume for mustahik is higher than muzakki so that there is a change in income. on the consumption of mustahik aggregate is higher than muzakki. In the following, a combination of MPC muzakki and mustahik graphs is also presented using equations (3) and (4) with the x-axis as the MPC value and the y-axis as income.

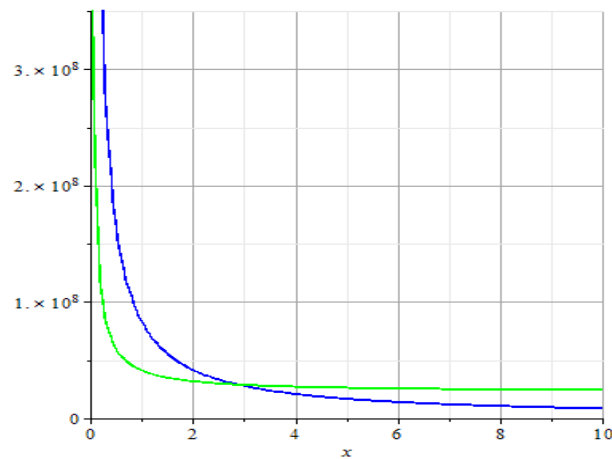


Figure 5 Muzakki (blue) and Mustahik (green) MPC graphs

After knowing the MPC muzakki and mustahik graphs, a general graph will be made using equation (1). To find out how large the level of aggregate consumption is with the MPC, the general form of the muzakki and mustahik consumption functions is obtained, namely $C_1 = 0.46Y$ and $C_2 = 0.76Y$ with the x axis as income (Y) and the y axis as consumption expenditure (C.) so that the graph is presented in Figure 6.

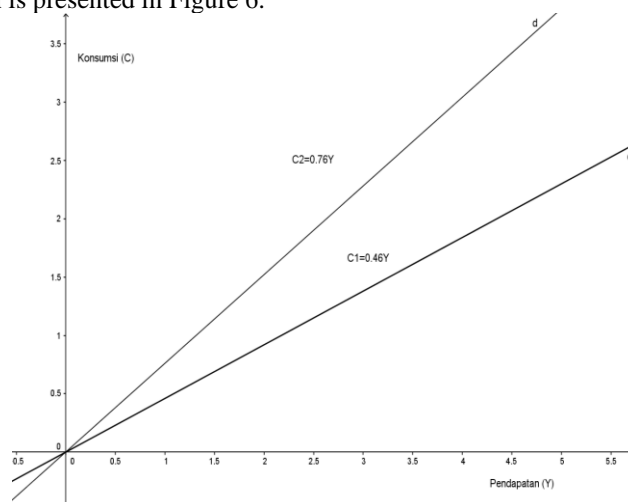


Figure 6 General Form of Muzakki and Mustahik Consumption Functions

Based on Figure 6 shows that MPC is the slope of the graph of the consumption function. The larger the MPC, the higher the consumption expenditure. The amount of mustahik consumption expenditure is higher because the gradient or tendency to consume it is higher than muzakki due to additional income from zakat. However, the amount of muzakki's consumption expenditure is more stable because of the order of zakat, causing not all of their income to be used for consumption expenditure alone so that the tendency to consume for muzakki is lower than mustahik. For muzakki, it causes a decrease in the consumption of goods and services. This shows that the behavior of muzakki is in accordance with Islamic principles and teachings in which a Muslim should not be extravagant, cultivate wealth, and must help others for those in need.

The successful life of a Muslim is measured by the morals of the Islamic religion because of his concern for the poor, while the high value of MPC for those who do not pay zakat shows that the behavior of the rich in consumption is always aimed at mere satisfaction without paying attention to the fate of others in need. Thus, aggregate consumption in an Islamic economy is better than aggregate consumption in a conventional economy.

Thus, especially in Cirebon district in 2018, it turns out that the effect of zakat can have an influence on aggregate consumption for muzakki, namely it can stabilize the consumption of goods and services, prevent the accumulation of wealth, eliminate miserliness and greed, develop a sense of social responsibility in themselves, educate to Discipline in fulfilling obligations and handing over the rights of others to those in need. The effect of zakat can build ties of brotherhood among Muslims so that the relationship between the rich and the poor can be realized properly because of the empathy and care provided by the rich which can build the joy of the underprivileged.

4. Conclusion

The effect of zakat on aggregate consumption in Islamic economics affects the total consumption expenditure of society as a whole. As in QS. Al-Hasyr verse 7 which describes that economically zakat assistance is assumed to be in the form of consumptive. Consumptive assistance provided to mustahik will increase the purchasing power of mustahik for goods and services that become their needs. Thus the effect of zakat can avoid social inequality and can foster brotherhood among Muslims so that the relationship between the rich and the poor can be realized properly. In addition, it can be said that the increase in aggregate consumption in the Islamic economy is better than the conventional economy.

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