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Impact of Islamic Religious Revenues on Economic Development across States in Malaysia

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Abstract

The constitution makes a provision that they can expand the definition of Islamic finance for economic development agenda (e.g CBA and Federal Constitution). The definition also covers Islamic religious revenue. This study will present an empirical evidence on the effect of Islamic religious revenues on economic development. The results will examine the relationship between Islamic religious revenues and gross domestic product to substantiate whether the Islamic wealth's hypothesis holds trues in the Malaysia context. The study covers the period from 1991 to 2017 and use panel data estimation to check the relationship among the variables. The results suggest that there exists a positive relationship between Islamic religious revenues and economic development. Hence, this study finds strong evidence for Islamic wealth's hypothesis as well.

Keywords: Islamic religious revenues; economic development; wealth hypothesis; panel data analysis
JEL Classifications: H52; C22; O23; E62;

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1. Introduction

Most of the studies that look at the role of Islamic finance and economic development are only limited to: link between Islamic finance (assets or financing) on the economic development (for example Said and Ismail (2008) and Kassim (2016) either at Islamic banking level (for example Sukmana and Kassim (2010)) or at microfinance level (institutions level) (for example Sultan and Masih (2016)) or at market level such capital market or sukuk on the economic development (for example Smaoui and Nechi (2017) and Echchabi, Abd.Aziz and Idriss (2016)). Neither or these studies enough, it depends on the purpose of those studies.

However, Islamic finance could not only be seen as from the institutional or market perspective. Institution such Islamic banking institutions, Islamic microfinance institutions or from the market perspective such as financing for housing, firm (via sukuk or working capital), car or personal. Islamic finance should go beyond those perspectives but it also covers the Islamic religious revenues. Countries such as Malaysia, Brunei and Singapore depend on the Islamic religious revenues as part of Islamic public finance. Here, the study supports the development financing via new approach of revenues that encourage Islamic religious revenues from public sources. It is new because the new approach will link closely both public individuals such contributors and recipients. We will also argue the different impacts of new approach since public revenues such as tax as main (taxpayer benefits – pay higher tax and receive higher benefits), but new agenda (refer to current payer paying for benefits of others). Hence, this study would see that Islamic religious revenues tools will affect differently the development agenda.

The current agenda, as stated in Sustainable Development Goals, tries to narrow the development gap and consider the impact of policy actions on low income groups. It states that narrowing the development gap and reducing poverty are integral part to broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient economy. The poorest groups are, therefore, seen as central to development agenda. However, it fails to address the human matters as part of development agenda.

The study also deviates from the view that public finance only concerns about the theory of public goods and provisions. In addition, this study also wants to emphasis on the need to focus on the necessity for improving the performance of the public finance and the provision of their goods by ensuring a proper alignment of responsibilities and fiscal instruments. Therefore, economists focus on efficiency and welfare achievement in determining ideal jurisdictional authority. However, the construction of ideal jurisdictional authority in practice goes beyond purely economic considerations. Political considerations, as well as historical events and necessities, have in practice, played major roles in shaping the inter-governmental fiscal relations in most countries.

However, the subject of Islamic revenues as public finance matters are not known. They are only a few which discusses the subject.⁴ For example, Khaf (nd) looks at the types and forms of public revenues of the early Islamic state. His study was aimed to discover the main features of the Islamic public system. While a study done by Shaikh (2010) shows a limited view on the role of zakat as the only source of revenue.

The studies that examine the effect of Islamic religious revenues on economic development is very few especially an empirical studies. There are only a few empirical studies, for examples Mahat and Warokka (2013), Azam, Iqbal and Tayyab (2014), and Khasandy and Badrudin (2019). In this study, we will be examining the effect of Islamic religious revenues on economic development.

⁴ The list of references can be found in Khan (1996)

2. Policy Basics: Where Do Islamic Religious Revenues Come?

This section provides a primer of the fiscal policy frameworks set forth in the federal constitution⁵, state law, and fourteen state constitutions in Malaysia. Recognizing that neither this country nor any constituent state has a free-standing fiscal constitution, this section works through the tangle of fiscal provisions that are embedded in the constitutions and constitutional law. Because what the constitution “says” about the practice of fiscal matters is largely about what the provisions have decided it should be based on what the framers meant by level of government,⁶ This section begins with a review of the framers on federal and state fiscal powers. It then lays out the core public finance provisions in the constitution.

Law provides the framework within which revenue systems operate. The law determines the extent of a country’s revenue raising authority, what type of revenues and how they are to be collected.

In relation to Islamic religious revenue, Ismail, Zaenal and Yusuf (2018) show that the state constitution recognizes the existence of the Islamic Religious Revenues. The state is given the power to manage the Islamic Religious Revenues. However, the constitution only mentions zakat, fitrah and waqf as state revenues. It misses the definition of Islamic religious revenues. Therefore, this section will revisit those revenues from the classical view,⁷ then it will highlight what is meant by baitulmal and other Islamic revenues. By doing this, this study can identify the types of Islamic religious revenue.

As reported in Table 1, each type of Islamic religious revenues will be discussed briefly as follows:

Panel A: *Zakāh al-Māl* - is obligatory for every muslim, it’s part of the wealth required of a Muslim when his wealth has reached *nisāb*⁸ to be given to people who deserve it (*mustahiq*). *Zakat al-Fitrah* - a special type of zakat which is to be paid in the month of Ramadan or lastly in the morning of *eid al-Fiṭr*. The obligation is intended to purify the soul, as cleaner on the soul of things littering during the fasting of Ramadan.⁹ It also serves as a donation for the poor and those who are eligible to receive charity on eid al-Fiṭr. This is an obligation for every Muslim, whether rich or poor, is still alive, and have excess on the property from being spent on basic needs.

Panel B: *Waqf* - This is to allot something as a trust for a certain cause. This can be during one’s lifetime or bequeathed in one’s will (up to the value of a third of one’s estate). When executed, as shown in Panel B Table 1, the donation becomes the property of Allah (and thus has specific rules regarding it), and its beneficiaries are to remain those named as the cause (e.g. the poor, orphans, students, the people of a certain locality, etc.)

Panel C: *Ṣādāqah Lillah* - This is charity which is not binding in nature but is optional. It includes alms given for the removal of difficulties, philanthropic (to give out of mercy to the less fortunate), the general giving of any Halal item to any one etc. This type does not need to be spent on the specified categories to be rewarding nor does it have to be spent on Muslims, although if spent on poor Muslims it would be more rewarding. This can also be bequeathed in one’s will (in which case it would be only up to a third of the deceased person’s entire estate).

⁵ We refer to the State of Malaysia (with 3 level of government – federal, state and local) (refer to Ghani, J.A. (2014)), Singapore (refer to Nathan and Kamali (2005)) and Brunei (only a central government).

⁶ The framers might be influenced by economists’ view

⁷ Refer further Ismail et al. (2013)

⁸ Gold *nisab* is 20 dinars (equivalent to 85 grams of pure gold) while nisab silver is 200 dirhams (equivalent to 672 grams of silver). This means, if you have 20 dinars of gold for one year, then gold should be issued zakat 2.5%. While nisab of cash money, savings, stocks, bonds, and other treasures are similar in value to the amount of gold must be paid same as zakah of gold and silver. Nisab of income is if your income has reached a value of 5 wasaq or 652.8 kg of grain (equivalent to 520 kg of rice), the amount must be paid is 2.5% from income.

⁹ Yūsuf al-Qardhawī, *Fiqh al-Zakāh*, Muassasah al-Risālah, Cairo, Part 1, 1973.

Panel D: *Nadhr* - This is an action which becomes necessary due to one imposing it upon oneself. This can be done if one wishes to express gratitude, and the action can take on a number of forms, including *Ṣādaqah*. If a person makes such an oath of giving charity, then it becomes *Ṣādaqah Wājibah*. If they are unable to uphold the oath, they will have to give *Kaffārah*, and may be sinful.¹⁰

Panel E: *Fidyah* - This is a compensation *Ṣoum* (fasting) for a person who cannot perform it due to being in terminal illness or being deceased (in which case it is given out of a third of the wealth) or in the event of a person making a minor mistake in Hajj. The amount for each *Ṣoum*, or each minor mistake in Hajj is to give 1.6 kg of wheat or its value (i.e. the same amount given for *Ṣādaqah al-Fitr*) to the poor.

Panel F: *Kaffārah* - This is a major compensation and like *Fidyah* it is also *Ṣādaqah Wājibah*. It applies in various situations such as if an individual breaks a fast intentionally, breaks an oath, or kills someone, *Kaffārah* would then be binding as the form of redemption.

Panel G: *Uḍḥiyyah* - This is also known as *Qurbani* or sacrifice. It is voluntary obligation order upon all mature Muslims, on the day of eid ul Adha, possess nisāb. Whoever qualifies for this is required to purchase a sheep or goat of more than one year in age, and slaughter that in the name of Allah after the Eid prayer preferably on the same day. The sacrifice can also be done on the four days of eid adha. If one fails to make the sacrifice in these three days he will still have to donate the value of the animal.¹¹ From the meat he may eat himself and feed his family and also distribute meat amongst the poor Muslims.

Panel H: *Aqīqah* - This is the sacrifice of an animal or two as thanks to Allah for the birth of a child. With this too can members of the locality be fed, preference again is for the poor and close family members.

Panel I: *Al-Fay'* - in classical legal thought, it is usually known as a collective wealth of Muslims derived from the taxation of conquered peoples. The term *Fay'* is applied in the Qur'an and the Sunnah exclusively to war gains - whether consisting of lands or tribute or indemnities—which are obtained from an enemy who has laid down arms before actual fighting has taken place. It is not to be distributed like booty (*Ghanimah*) among the soldiers, but the whole of it is for Allah and His apostle.¹² From the Sunnah and Practice of the Prophet of Islam it is evident that the Prophet himself used to manage *Fay'* as the head of the Muslim Countries.

Panel J: *Al-Luqatah* - refers to anything that is found and picked up from the ground. Technically, scholars define it as: property that the owner loses and a person finds and takes away (to preserve it in trust). *Al-Luqatah* remains a trust with the person who finds it and keeps it, and he is deemed liable for it only if he abuses it. He is also deemed liable for it if he gives it to somebody else without the permission of a judge.

¹⁰ "(Remember) when the wife of 'Imran said: My Lord! I have vowed unto Thee that which is in my belly as a consecrated (offering). Accept it from me. Lo! Thou, only Thou, art the Hearer, the Knower!"[Qur'an 3:35]

¹¹ One may slaughter goats or sheep, which constitute one sacrifice each, or one may slaughter a larger animal (i.e. cow or buffalo) which will be counted as seven sacrifices each. In the event of living in a wealthy country, it is better that one sacrifices one part locally to fulfil the Sunnah of sacrificing oneself, and to arrange for the remaining sacrifices to be performed in a poorer country, where the poor may also partake of it.

¹² See Al-Qur'an 59: 6-7

Table 1: Fiscal Instruments in Islam

Instruments	Contributors	Recipients
Panel A <i>Zakat al-Fiṭrah</i> <i>Zakat al mal</i>	Individual	Al-Fuqara' (The poor); Al-Masakin (The needy); Fir-Riqab (People in bondage or slavery); Ibtas-Sabil (The wayfarer, or stranded traveller); amil; fi sabilillah (for the sake of Allah); mu'alaf; and al-gharimin (indebtedness)
Panel B <i>Waqf</i>	Individual	beneficiaries - remain those named as the cause
Panel C <i>Ṣādaqah Lillah</i>	Individual	spent on poor Muslims and be bequeathed as hibah (only up to a third of the deceased person's entire estate)
Panel D <i>Nadhr</i>	Individual	oath of giving charity, then it becomes Ṣādaqah Wājibah. If they are unable to uphold the oath, they will also have to give Kaffārah
Panel E <i>Fidyah</i>	Individual	the poor
Panel F <i>Kaffārah</i>	Individual	A slaved person and the poor
Panel G <i>Udhiyya</i> (<i>Qurbani or sacrifice or Dām</i>)	Individual (not performing hajj or performing hajj)	The owner of the meat of sacrificed animals may consume himself and feed his family and also distribute amongst the poor Muslims.
Panel H <i>Aqīqah</i>	Individual	members of the locality can be fed, preference again is for the poor and close family member
Panel I <i>Al-Fay'</i>	Individual (conquered people)	for Allah and His apostle
Panel J <i>Al-Luqatah</i>	Individual (original owner)	property of the finder (after announcement)

Islamic religious revenues are not only understood to generate income, but is wider than that of generating benefits. This is in line with the current views who argue that Islamic religious revenues such as waqf also produce benefits or in terms of current economic terms are known as outcomes. Therefore, Islamic religious revenues could also affect the economy. Economic activity reflects a balance between what individual and businesses owner want to contribute voluntarily or mandatorily. In the short run, the collected amount of Islamic revenues can be spent to create demand for that particular year. In the long run, Islamic religious revenues can be used to sustain the economic growth. Hence, the effectiveness of Islamic religious revenues in determining economic potential depends on its size.

3. Role of Islamic Religious Revenues on Economic Development

Basic trust of Islamic religious revenues or the focus point is the poor and needy. The income of the poor and needy could be increased by channelling Islamic religious revenues. Since, Islamic religious revenues are considered as part of public finance, it also inform the effectiveness of fiscal policy. Therefore, the previous studies that try to link between Islamic religious revenues can be seen from the public finance theory.

The neoclassical growth theory suggests that government expenditure (hereafter, fiscal policy) cannot bring about changes in long-run growth of output. The introduction of endogenous growth models that incorporate the government sector has led to the opposite conclusion that fiscal policies can affect the long-run growth rate of an economy (Barro and Sala-i-Martin, 1992). In endogenous growth model, fiscal policy can improve the factor allocation of the market due to market failure. As a result, productivity and the accumulation of capital (both money and human) respectively can be increased. Public resources, institutions and markets or spill-over effects (of the former three) are the main justifications for government provision. In theory, these publicly provided goods enter the production function so that they can boost the steady-state growth rate (Barro and Sala-i-Martin, 1992, for a clear theoretical exposition).

However, the effect of fiscal policy on economic growth is very much characterized to the dynamic relation between expenditures and revenues. The tax-and-spend school, championed by Friedman (1978). He argues that expenditures are adjusted, up or down, to whatever level depending on revenues. This view implies a causal relation running from revenues to expenditures.

However, the public finance scholar such as Peacock and Wiseman (1979) has a different view. They propose a spend-and-tax model - with revenues responding to prior spending changes. They said that economic or political crises creates an increase in expenditure programs that are subsequently ratified by tax increases. Barro (1979) introduces the tax-smoothing model which also implies causation running from expenditures to revenues.

The public finance studies often assume that a government determines both revenues and expenditures in ways that maximize the social welfare of the society. In relation to this assumption, four alternative hypotheses have been advanced to ascertain the nature of the causality between these variables in the budgetary process. The tax-and-spend argument proposes that changes in government revenues lead to changes in government expenditures. Friedman (1978) were early proponents of this view but differed in their perspectives. Friedman argued that increasing the resources available to government by increasing tax revenues will only lead to increases in government expenditures. The Friedman version of the tax-spend hypothesis suggests that government revenues have a positive effect on government expenditures.

Alternatively, Buchanan and Wagner argued that increases in government revenues may lead to decreases in government expenditures through fiscal illusion. In particular, if the government is financing expenditures by means other than direct taxation, the fiscal illusion occurs because the public pays less in direct taxation but more in the form of indirect taxation (e.g., crowding-out effects and bracket creep caused by inflation). If indirect taxation declines while direct taxation increases, this trend could reduce government expenditures. The spend-and-tax hypothesis suggests that a government first makes expenditure decisions and then adjusts tax policy and revenues as necessary to accommodate expenditures. From a Ricardian equivalence perspective, Barro (1979) argued that increased government expenditures financed by borrowing will translate into higher future tax liability for the public.

In the context of fiscal policy response to "crisis" situations, temporary increases in government expenditures in response to such crises will lead to higher permanent taxes. Under either perspective, higher expenditures would lead to higher taxes.

Government revenue impacts economic growth through meeting the various governmental needs (Illyas and Siddiqi, 2010). Perhaps the most important mechanism through which government expenditure impacts on economic performance are the costs of raising taxes to finance that expenditure because taxes affect the decisions of households to save, supply labour and invest in human capital and of firms to produce, create jobs, invest and innovate, as well as the choice of savings channels and assets by investors (Johansson, 2008). By lowering the returns to earning income, taxes reduce incentives to work, save and invest, thereby "crowding out" or discouraging private sector activity. Setting the right mix is important, as the distortionary effects of collecting revenue from different sources can be very different. Though all taxes have disincentive effects, taxes that reduce incentives to invest in human or physical capital and innovation are

particularly damaging. Consequently, theory and evidence suggest that a shift from taxing incomes or profits to property or consumption can enhance growth (Barrios and Schaechter, 2008 and Johansson, 2008). Consumption taxes may discourage work and investment in human capital but they appear to have a relatively minor impact on the long-run determinants of growth, such as investment, education or technical progress (Bassanini, Scarpetta and Hemmings, 2001).

Therefore, endogenous growth models tend to make a simplifying distinction between “distortionary” taxes that impact on investment decisions and “non-distortionary” taxes that have little impact on investment. While financing expenditure carries costs to economic growth, some types of government expenditure are beneficial to economic performance. Some government expenditure is a prerequisite for a functioning market economy, such as a legal system to protect private property rights (Barrios and Schaechter, 2008). Beyond this foundational level, expenditure initiatives may lift long-run growth rates by increasing investment in physical capital, knowledge, human capital, research and development or public infrastructure, particularly where market failures lead to under-investment by the private sector. For example, government investment in physical capital could boost long-run economic growth if investment stimulates technological progress or if the productivity of businesses is boosted from others “investment or innovation (knowledge spillovers)” (Bassanini, Scarpetta and Hemmings, 2001).

Government can directly invest in physical capital or infrastructure or it can encourage private sector investment. Investments in human capital may have persistent impacts on economic growth if education enables ongoing innovation and advances in technological progress. Individuals and firms may under-invest in human capital from an economywide perspective as they will not factor in the positive flow-on effects to other workers and businesses from investment in education and training. This can be compounded by problems in accessing capital to finance investment in education, providing a rationale for government funding of education (Ayres and Warr, 2006).

4. The Models

Wagner and Keynes propositions present two opposite perceptions in terms of the relationship between public expenditure and growth in national output. Peacock and Wiseman provide explanation to public expenditure growth and government revenue. While according to Wagner’s approach (1890) causality runs from growth in national output to public expenditure, the Keynesian approach assumes that causality runs from public expenditure to growth in national output in times of recessions.

However, in this study, we will propose that Islamic religious revenues would expand the wealth (real gross domestic product and real per capita gross domestic product as proxy) and the wealth could also expand the Islamic religious revenues. Both we propose as the wealth hypothesis. Hence, the following model is proposed:

$$\text{GDP} = f(\text{IRR}) \quad (1)$$

$$(\text{GDP}/\text{P}) = f(\text{IRR}) \quad (2)$$

$$(\text{GDP}/\text{P}) = f(\text{IRR}/\text{P}) \quad (3)$$

where IRR=Total Islamic religious revenues, GDP=Real gross domestic product, and GDP/P=Real per capita gross domestic product.

Model 1 is originally suggested as the simplest of all the versions of wealth hypothesis and has been widely used in many studies. Model (2) is used as we argue that as a nation experiences economic development and wealth, an increase must occur in the activities of the public sector and that the ratio of increase, when converted into revenue terms, would exceed the rate of increase in output per capita. Model (3) is used to investigate whether or not the elasticity of Islamic religious revenues spending per capita with respect to gross domestic product (GDP) per capita is above unity.

Verification of wealth hypothesis is done by testing a panel data relationship between Islamic religious revenues and wealth of a nation. The examination of this economic relationships is based on annual time-series data for a period of 27 years (1991-2017) and involves fourteen states in Malaysia. The data are taken from the Jabatan Wakaf, Zakat Dan Haji; Pusat Pungutan Zakat, Majlis Agama Islam Wilayah Persekutuan and Department of Statistics, Malaysia. All the variables are expressed in natural logarithms terms for testing purposes.

5. The Analysis and Discussions

In this analysis, we use panel data to examine the behavior of Islamic religious revenues that are observed across state and over the period of 1991-2017. As shown in Table 1, the descriptive statistics will be interpreted as follows. The maximum and minimum value is to identify a possible outlier or a data-entry error. The spread of the data is not very high, hence there is no alarming reason of the extreme value. While the mean value is very closed to the median. It is further proven with the value of standard error. The distribution of the data shows a positive kurtosis value which indicates that the distribution has heavier tails and a sharper peak than the normal distribution. a small probability value leads to the rejection of the null hypothesis of a normal distribution for all variables, except zakat per capita.

Table 1: Descriptive Statistics

	Log (GDP)	Log (GDPPERCA PITA)	Log (ZAKAT)	Log (ZAKATPERC APITA)
Mean	23.7699	9.6023	17.0906	2.923001
Median	23.8607	9.6007	17.1482	2.886100
Maximum	26.4496	11.3922	20.4450	6.754404
Minimum	20.5377	7.8493	13.7218	-0.644509
Std. Dev.	1.1383	0.6874	1.42513	1.294603
Skewness	-0.2918	0.0154	0.00197	-0.120107
Kurtosis	2.8733	2.4237	2.35347	2.911889
Jarque-Bera	5.5892	5.2169	6.54880	1.025632
Probability	0.0611	0.0736	0.03784	0.598807
Sum	8937.504	3610.474	6426.078	1099.048
Sum Sq. Dev.	485.9353	177.2374	761.6246	628.4993
Observations	376	376	376	376

Then, we proceed to our next estimation by performing the two tests, namely random and fixed effects. In fixed effects, we are only interested in analyzing the impact of variables that vary over time. Because the time-invariant characteristics are unique to the individual and should not be correlated with other individual characteristics. Each state is different therefore the state's error term and the constant (which captures

individual characteristics) should not be correlated with the others. By looking at the Chow and Hausman tests, as presented in Table 2, the error terms in Model 3 are correlated, then random effect is no suitable since inferences may not be correct and we need to model that relationship by using fixed effects.¹³ However, for Models 1 and 2, both Hausman test show that the state's error term and the constant (which captures individual characteristics) are not correlated with the others. This is the main rationale for the Hausman test.

Next step is to decide between fixed or random effects. We run a Hausman test where the null hypothesis is that the preferred model is random effects vs. the alternative the fixed effects. It basically tests whether the unique errors are correlated with the regressors, the null hypothesis is they are not. The results reported in second half of Table 2 show that the Hausman test is only significant for Model 3. Therefore, for model 3; and Models 1 and 2, we use the fixed effects and random effects, respectively.

Table 2: Results of Chow test and Hausman test

	Model 1 GDP = f(IRR)	Model 2 (GDP/P) = f(IRR)	Model 3 (GDP/P) = f(IRR/P)
Chow Test			
• Cross section F	305.541 (p=0.00)	88.486 (p=0.00)	123.901 (p=0.00)
• Cross section chi-square	934.415 (p=0.00)	538.380 (p=0.00)	638.365 (p=0.00)
Hausman Test			
• Cross section random	0.382 (p=0.537)	1.345 (p=0.246)	5.527 (p=0.019)
Selection method of regression	Random Effect Model	Random Effect Model	Fixed Effect Model

The correlation between Islamic religious revenues and economic development is done to prove that as one Islamic religious revenue changes in value, economic development tends to change in a specific direction. As reported in Table 3, three model of correlation shows that they are correlated to each other. As Islamic religious increases, economic development also tends to increase.

Table 3: Correlation between Islamic religious revenues and GDP
Correlation between variable in model 1

	LGDP	LIRR
LGDP	1.000000	

LIRR	0.751771	1.000000
t-statistic	22.04737	
Probability	0.0000	

¹³ The rationale behind random effects model is that, unlike the fixed effects model, the variation across states is assumed to be random and uncorrelated with the predictor or independent variables included in the model

Correlation between variable in model 2		
	LGDPPERCA PITA	LIRR
LGDPPERCAPITA	1.000000	

LIRR	0.798819	1.000000
t-statistic	25.68008	
Probability	0.0000	

Correlation between variable in model 3		
	LGDPPERCA PITA	LIRRPCAP ITA
LGDPPERCAPITA	1.000000	

LIRRPCAPITA	0.708405	1.000000
t-statistic	19.41029	
Probability	0.0000	

Table 4 shows the effect of Islamic religious revenues on economic development. The t-statistics for all three models are significant at 1% level. Higher economic development (as measured by gross domestic product or income per capita) are associated with more Islamic religious revenues (as proxied by Islamic religious revenues or Islamic religious revenues per capita). Meaning that Islamic religious revenues are distributed to individuals and hence increase their demand for public goods that finally affect the economic development. This finding provide an additional evident that has been done by other studies such as Yusoff (2009), Yusoff (2011), and Yusoff and Densumnite (2012). It proves that Islamic religious revenues could improve the quality of the life of the society.

Table 4: Results of Regression

	Model 1 GDP = f(IRR)		Model 2 (GDP/P) = f(IRR)		Model 3 (GDP/P) = f(IRR/P)	
	Coefficient	t- statistic	Coefficient	t- statistic	Coefficient	t- statistic
B ₀	14.202***	54.743	2.317***	12.980	8.172***	256.18
Exogenous	0.559***	60.178	0.426***	49.240	0.489***	47.71
Adjusted R-squared	0.907		0.866		0.905	

Level of significance: *** p < 0.001; ** p < 0.010; * p < 0.050; ns p < 0.100

6. Conclusion

The aim of this study is to examine the effect of Islamic religious revenues on economic development. The study covers the period from 1991 to 2017 and uses panel data estimation to check the relationship among

the variables. The results suggest that there exists a positive relationship between Islamic religious revenues and economic development. Hence, this study finds strong evidence for Islamic wealth's hypothesis as well.

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