# A Zakat-Based System for justice, Economic Growth and welfare for all

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# Ending Exploitative Taxation

## A Zakat-Based System for justice, Economic Growth and welfare for all

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**Abstract:**

Persistent inequality and the growth-justice dichotomy challenge conventional economics. This article proposes a Zakat-based model as a synergistic alternative. Reconceptualizing Zakat from mere charity to a central fiscal institution, we argue its mandatory wealth levy acts as a built-in mechanism for continuous wealth redistribution and economic stimulation. This system inherently curbs inequality, boosts aggregate demand by empowering the poor, and ensures a dignified welfare baseline. A comparative analysis highlights advantages over welfare states and Universal Basic Income in fostering sustainability and social cohesion. The study concludes that Zakat offers a viable, ethically-grounded framework for achieving holistic economic development.

**Keywords:** Zakat, Economic Justice, Islamic Economics, Wealth Distribution, Welfare Model.

## 1.INTRODUCTION:

The contemporary global economic landscape is defined by a profound and persistent crisis: the apparent inability of dominant economic paradigms to harmonize material progress with social equity. Neoliberal capitalism, while generating immense aggregate wealth, has exacerbated historic inequalities, fostering social fragmentation and precariousness. Conversely, state-centric socialist models have often struggled with bureaucratic inefficiency and stifled innovation. This fundamental trade-off between growth and justice represents a critical failure of 20th-century political economy, creating an urgent imperative for alternative frameworks that transcend this dichotomy. In this vacuum, ethical systems offering holistic solutions are gaining scholarly attention. This article contends that Islamic economics, specifically through the institution of Zakat, presents a viable alternative. By re-theorizing Zakat not as a mere act of charity but as the central pillar of a modern fiscal system, we propose a model capable of simultaneously delivering distributive justice, sustainable growth, and universal welfare[1]

## 2. Zakat vs. Conventional Welfare Models:

Zakat and conventional welfare models share the goal of poverty alleviation but differ in their foundational principles. Zakat is a mandatory, fixed-rate religious obligation for eligible Muslims, functioning as an act of worship to purify wealth. Its collection and distribution are specifically prescribed to eight Quranic categories, making it a decentralized, faith-based system.[2] In contrast, conventional welfare is a state-run, secular mechanism funded by general taxation, with benefits and eligibility determined by evolving government policy. While the latter is a legal right, Zakat's power derives from its spiritual imperative and community-led execution, creating a distinct model of wealth redistribution.

## 3. Zakat as an Engine for Circulation and Stability:

The macroeconomic potency of Zakat is profound, stemming from its unique design as an automatic, rule-based engine for wealth circulation that directly counteracts the stagnation and inequality inherent in mature capitalist economies. Its mechanics operate on several powerful and interconnected fronts, offering a systemic alternative to conventional fiscal tools. First, Zakat functions as a powerful built-in economic stabilizer. Unlike discretionary government stimulus, which is often subject to political delays and bureaucratic inefficiencies, the mandatory 2.5% annual levy on idle capital is a continuous, non-discretionary process. This mechanism works counter-cyclically: during economic booms, it syphons off excess liquidity from stagnant pools of wealth, thereby mitigating the speculative bubbles that often lead to crises. During downturns, it automatically injects this capital directly into the hands of the most marginalized citizens—those with the highest marginal propensity to consume. This immediate transfer sustains aggregate demand, provides a floor for consumption, and stimulates productive economic activity from the bottom up, effectively acting as a natural and timely fiscal stimulus without the corresponding increase in public debt.

## 4. Zakat systemically attacks:

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1 . Muhammad Nejatullah Siddiqi, Riba, Bank Interest, and the Rationale of Its Prohibition (Jeddah: Islamic Development Bank, 2004), 78.

2 . Asif Iqbal, Islamic Social Finance: Zakat and Beyond (London: Islamic Research Foundation, 2023), 45.

Zakat systemically attacks the root cause of economic inequality by targeting accumulated wealth stocks rather than just income flows. Conventional progressive income taxes, while important, often fail to address the core driver of long-term divergence: the ability of large capital endowments to generate returns that outstrip economic growth. By imposing a recurring charge on net wealth itself (above a minimum threshold, or nisaab), Zakat directly reduces the capital-to-income ratio at the top of the wealth distribution. This pre-distributive feature prevents the dynastic accumulation of capital and ensures that wealth is continuously recycled back into the economic bloodstream, promoting a more equitable and dynamic distribution of assets over time.

## 5. Zakat vs. Conventional Welfare Models:

A comparative analysis reveals the distinct advantages of a Zakat-based system over conventional welfare models, highlighting its superior design for sustainability, empowerment, and social cohesion. Unlike reactive fiscal systems, Zakat offers a proactive, integrated approach to economic justice.

First, compared to the modern welfare state, Zakat presents a more fiscally sustainable and morally coherent model. The welfare state, funded primarily by taxes on income and corporate profits, often faces political resistance and can create disincentives for productivity due to high marginal tax rates and complex means-testing. Its bureaucracy is frequently costly and can foster dependency. In contrast, Zakat is a flat levy on accumulated wealth above a substantial minimum (nisaab), making it politically less contentious to administer and economically more efficient. It targets idle capital rather than punishing productive labor. Furthermore, as a religious obligation, its moral imperative fosters voluntary compliance and social solidarity, reducing the stigma associated with receiving aid and framing it as a rightful claim (haqq) of the poor, not a government handout. This transforms the social dynamic from one of state-led redistribution to one of community-based circulation.[3]

## 6. Khulafa Rashideen:

A paramount historical example from the era of the Khulafa Rashideen that validates the macroeconomic potency of a Zakat-based system is the policy of the Bayt al-Mal (Public Treasury) under Caliph Umar ibn al-Khattab. His administration institutionalized Zakat collection and distribution with unprecedented rigor, transforming it into a powerful instrument of statecraft that ensured both justice and prosperity. Historical chronicles record that under

[3] . Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books, 1984), 205-208.

Umar's governance, the state's revenue was so substantial and its distribution so effective that poverty was virtually eliminated within the Muslim community. The system's success hinged on its sophisticated understanding of circulation. Surplus funds from wealthy provinces like Egypt and Syria were not hoarded but were strategically transferred to areas in need, ensuring capital flowed to where it could stimulate economic activity. Furthermore, Umar established a permanent stipend (ʿAta') for all citizens from the state treasury, a de facto basic income funded largely by Zakat and other Islamic revenues. This guaranteed a minimum standard of living, boosted aggregate demand, and fostered unparalleled social stability. The case of Umar's caliphate demonstrates that when Zakat is elevated from individual charity to a systematic fiscal policy, it can create a thriving, equitable, and self-sustaining economy, precisely as argued in this article's theoretical model.[4]

## 8. Zakat vs. Conventional Welfare Models:

The practical efficacy of a Zakat-centric economic model is powerfully demonstrated by the historical precedent of the Umayyad Caliph Umar ibn Abdulaziz (r. 717-720 CE). His reign offers a compelling case study of the macroeconomic mechanics outlined in this article. By rigorously enforcing the collection and principled distribution of Zakat, particularly by ensuring it was collected from the wealthy and distributed locally to the eight canonical categories of recipients (asnaf), Umar ibn Abdulaziz achieved a level of economic justice and prosperity that became legendary in Islamic history. Historical accounts report that during his brief rule, Zakat funds became so abundant that government officials traversed the provinces unable to find eligible poor and needy recipients—a testament to the system's success in eradicating absolute poverty. This was not achieved through complex state-led projects but by activating the innate circulatory mechanism of Zakat. Wealth, previously concentrated, was injected into the grassroots economy, boosting local demand and empowering individuals. This example validates the article's core argument: that a properly administered Zakat system can function as a powerful engine for wealth circulation and stability, creating widespread welfare without imposing heavy taxation or bureaucracy. The case of Umar ibn Abdulaziz stands as a historical benchmark for the viability of the proposed model.[5]

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[4] . Al-Baladhuri, Futuh al-Buldan (The Conquest of Nations), ed. Michael Jan de Goeje (Leiden: Brill, 1866), 125-128.

[5] . Al-Mawardi, Al-Ahkam al-Sultaniyya (The Laws of Islamic Governance), (Beirut: Dar al-Kutub al-Ilmiyya, 1985), 254.

### Implementation:

A viable implementation blueprint requires establishing an independent, transparent National Zakat Authority (NZA) governed by a board of scholars, economists, and technocrats. This body would leverage digital platforms for efficient, traceable collection and disbursement. Crucially, distribution must be strategic, aligning with the eight asnaf (Quran 9:60). This means moving beyond simple cash transfers to funding vocational training, interest-free microfinance, and healthcare for the poor (Fuqara & Masakin), while supporting debt relief programs (Gharimin). Integrating Zakat with Awqaf (endowments) would create a sustainable social finance ecosystem for long-term projects like affordable housing and education, ensuring systemic impact.

## CONCLUSION:

This article has argued that a Zakat-based economic model offers a coherent and sustainable alternative to conventional systems, effectively harmonizing economic growth with distributive justice. By functioning as a built-in mechanism for wealth circulation, Zakat addresses systemic inequality while fostering broad-based prosperity. The policy imperative is clear: integrate Zakat into national economic frameworks as a central fiscal instrument. This necessitates establishing transparent, efficient institutions for its collection and strategic disbursement. Ultimately, adopting this model promises a transformative shift towards an economy that is not only productive but also ethically grounded and inclusive, ensuring dignity and welfare for all members of society.

## RECOMMANDATIONS:

**1.**Establish a National Zakat Authority: Create an independent, transparent federal institution to standardize collection and distribution.

**2.** Integrate with National Planning: Align Zakat disbursement with national goals for poverty alleviation, healthcare, and education.

**3.** Leverage Digital Technology: Develop secure platforms for efficient collection, tracking, and reporting to build public trust.

**4.** Promote Financial Literacy: Educate recipients on wealth management and entrepreneurship to maximize the developmental impact of Zakat funds.

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