NAME :LAIBA AHMED

TOPIC # 1 :ENDING EXPLOITATIVE TAXATION : A ZAKAT-BASED SYSTEM FOR JUSTICE, ECONOMIC GROWTH, AND WELFARE FOR ALL.

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OUTLINE

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Thesis statement : The true crisis of modern economics is not a lack of wealth, but its failure to circulate. A Zakat-based fiscal framework addresses this by institutionalizing the flow of capital, ensuring that economic progress is tethered to the well-being of the poor and the long-term health of the community.

Introduction: The Paradox of Modern Prosperity

We are currently living through a strange and unsettling paradox. On paper, the world has never been wealthier. Global GDP has reached heights that would have been unimaginable to our ancestors, and the technological tools at our disposal have the potential to solve almost every material crisis we face. Yet, on the streets from the sprawling urban centers of London to the bustling markets of Karachi the sense of economic precariousness is palpable. The "social contract", that invisible agreement, where we give up a portion of our earnings in exchange for a functional society feels like it's fraying at the edges.

Our modern tax systems have become so bloated and convoluted that they often seem to work against the very people they are meant to support. We find ourselves in a deadlock where the middle class is squeezed, the poor are forgotten, and the wealthy are increasingly disconnected from the societies that enable their success. In searching for a way out of this impasse, there is a profound argument to be made for looking at the institution of Zakat. It is not just an ancient religious practice, it is a remarkably sophisticated economic "reset button" that addresses the exact points where modern capitalism is currently breaking down.

➢ The Problem with Modern Taxation: Penalizing Productivity

Let's be honest, most people don't view taxes as a contribution to the common good anymore, they view them as a penalty. The modern tax code in most developed nations is a labyrinthine structure that inadvertently punishes the very behaviors we claim to value. We say we value hard work, yet we tax income at progressively higher rates. We say we value innovation, yet we tax the corporate growth that results from it. We say we want to encourage local commerce, yet we tax spending through VAT and sales taxes.

The fundamental flaw in this design is its focus on "flow" rather than "stock." While a worker's paycheck is sliced thin by various deductions before it even hits their bank account, wealth that just sits there, parked in offshore accounts, stagnant financial instruments, or luxury assets, often escapes the net entirely. As the French statesman Jean-Baptiste Colbert famously put it, "The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing." Today, the "hissing" has turned into a roar because the middle class feels plucked bare, while the largest geese have found ways to fly to tax havens where no plucking occurs.

➢ Zakat as an Economic Institution (Not Mere Charity)

One of the biggest hurdles in discussing Zakat in a secular economic context is the tendency to dismiss it as "just charity." This is a category error. In an economic sense, Zakat functions as a targeted tax on idle capital. It is a surgical strike against the hoarding of wealth. **Allama Iqbal**, the national poet, viewed Zakat as a tool for social justice rather than just "charity":

"Zakat is not a tax on wealth, but a mechanism to ensure that wealth does not circulate only among the rich."

While a standard income tax hits the "flow" of money (the activity of earning), Zakat hits the "pool" of money. By applying a consistent 2.5% rate on assets that have sat unused for a lunar year, the system creates a subtle but powerful psychological and mathematical nudge: **Use it or lose it**. If you leave your wealth under a mattress or in an unproductive vault, it slowly shrinks by 2.5% every year. However, if you invest that wealth in a business, a farm, or a startup, the growth from that investment typically exceeds the 2.5% levy.

This turns Zakat into an engine of investment. This is not a theoretical concept; it is a multi-billion-dollar reality. In Pakistan, for instance, the annual Zakat contributions for the 2024-2025 period reached an estimated Rs. 619 billion (roughly $2.2 billion). This massive injection of capital into the lower strata of society acts as an institutionalized way of keeping money moving, preventing it from "clotting" in the hands of a few and ensuring that capital is constantly seeking productive outlets in the real economy.

➢ The Philosophy of Nisab: Justice and Fairness

There is a refreshing clarity to the Zakat model that modern "tax brackets" and "loopholes" lack. It is built on the concept of the Nisab, a minimum threshold of wealth below which a person is exempt from payment. This ensures that those struggling to meet their basic needs are never burdened by the fiscal system.

"And in their wealth, there is a recognized right for the needy and the deprived." **The Quran (51:19)**

In Pakistan, the Ministry of Poverty Alleviation dynamically adjusts this threshold to account for inflation. For 2025, the Nisab was set at Rs. 179,689. This adjustment is a practical example of how Zakat remains dynamic. As inflation erodes the value of currency, the "floor" for who is considered wealthy enough to pay must rise. This ensures that the system does not accidentally penalize those who are themselves struggling, a flexibility often missing from rigid, bracket-based income tax systems.

The beauty of this shift is in the language. In our current system, we have "tax avoidance" industries worth billions. In a Zakat-based system, fairness is not something negotiated by lobbyists, it is a fixed, predictable debt of justice. It is not framed as a "gift" from the rich, which carries a subtext of superiority and pity. Instead, it is the "right" of the recipient. This removes the stigma of "welfare" and replaces it with the dignity of "entitlement" in the truest sense of the word.

➢ Macro-Economic Growth and the Velocity of Money

From a purely macro-economic perspective, Zakat is a masterclass in the velocity of money. The velocity of money is a measurement of the rate at which money is exchanged in an economy. High velocity is usually a sign of a healthy, buzzing market.

When you redistribute wealth from the top to the bottom 20% of society, that money does not disappear into a Swiss bank account. It goes to the baker, the mechanic, the local grocer, and the landlord. Lower-income families have what economists call a high "marginal propensity to consume." They spend because they have to on food, education, healthcare, and housing.

In Pakistan, the scale of Zakat giving has become so significant that it now rivals and even exceeds major state-led initiatives. In 2025, the total Zakat pool effectively surpassed the budget of the Benazir Income Support Programme (BISP), which was allocated approximately Rs. 599 billion. This creates a bottom-up stimulus that is far more effective than the "trickle-down" theories that have dominated the last forty years. Zakat acts as a pump, taking water from the deep, stagnant wells and spraying it over the parched fields where the actual growth happens.

➢ Administrative Efficiency and the Power of Localism

We have grown used to the idea that a tax authority must be a massive, faceless, and often terrifying bureaucracy. Zakat suggests a different way: radical decentralization. Traditionally, Zakat was collected and distributed within the same community, creating a feedback loop of social accountability.

This "trust gap" is evident in modern Pakistan. Current studies show that less than 2% of Zakat givers use the government's Central Zakat Fund. Instead, they give directly to individuals widows, students, or neighbors—or through trusted local institutions like the Edhi Foundation or The Citizens Foundation (TCF). When a business owner knows that their contribution is going directly to a local clinic or helping a neighbor get back on their feet, the incentive to "cheat the system" evaporates. It cuts out the "administrative leakage" where half of a dollar is spent on the paperwork required to move the other half-dollar. It's a peer-to-peer social safety net.

➢ Ethical Foundations: Wealth as a Trust

Perhaps the most "human" element of this system is how it changes the relationship between the citizen and the state. Today, the state is often viewed as a predator. Zakat, however, frames wealth as a trust (Amanah). You are allowed to be wealthy, there is no cap on success but that wealth comes with a social mortgage.

Mahatma Gandhi once captured this spirit perfectly:

"The world has enough for everyone's need, but not enough for everyone's greed."

By making the "social mortgage" a core part of one's ethical identity, Zakat fosters a sense of social cohesion that no government mandate ever could. It is the difference between doing something because you're forced to by a police power, and doing something because you believe it is the only way to remain a moral member of your community. **Abdul Sattar Edhi,** Pakistan's most beloved philanthropist, often emphasized that wealth is a trust:

"Empty words and long praises do not impress God. Show Him your faith by your deeds; help the needy, for that is where true wealth lies."

It transforms the act of "paying taxes" into an act of "purification", the literal meaning of the word Zakat.

➢ Addressing the Skeptics: The Question of Sufficiency

The most common criticism is that a 2.5% levy is not enough to fund modern state needs like high-speed rail or space exploration. And they're probably right. But Zakat is not meant to fund the state's grand ambitions; it is meant to fund the people's survival.

Think of Zakat as the immutable floor of a building. A state can still have other forms of revenue, tolls, fees, or infrastructure taxes but Zakat ensures that the "social safety net" is never subject to political whim or budget cuts. Given that global private wealth is estimated in the hundreds of trillions, a 2.5% levy on just the idle portion of that would wipe out extreme global poverty in a single fiscal year. The "sufficiency" is not a math problem; it is a distribution problem.

➢ The Global Implications: A New Fiscal Order

If we were to apply these principles globally, the impact would be revolutionary. It would discourage capital flight and provide a steady, non-debt-based stream of funding for developing nations. Instead of being trapped in cycles of high-interest loans, the poorest regions could be supported by a global "equity pulse." It moves us away from a "debt-based" economy, which thrives on extraction, toward an "equity-based" economy, which thrives on circulation.

➢ Conclusion: Toward a Humane and Sustainable Future

We do not need to adopt a specific religion to realize that our current way of handling money is fundamentally broken. We are over-taxing work and under-taxing stagnation. We are fostering a world of "haves" and "have-nots" that is becoming increasingly volatile.

Moving toward a Zakat-inspired model, one that prioritizes the circulation of wealth over its hoarding, is simply common sense for the 21st century. Pakistan's experience in 2025 shows that even in a struggling economy, this "equity pulse" can sustain a population where a traditional tax-and-spend model might fail. A sustainable future is not one where we stop creating wealth; it is one where we make sure that wealth, like blood in a body, never stops moving. When money stops moving, the society withers. Zakat is the heartbeat that keeps the economic body alive. It is time we listened to that pulse.

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