Ending Exploitative Taxation – A zakat-based system for justice, economic growth, and welfare for all

Economic crisis in Pakistan is increasingly day by day defined by inequality rather than growth alone. More than 60% of the population lives under the line of poverty. Moreover, the tax system disproportionately burdens those with limited capacity to pay, leaving economic privilege largely protected. Due to heavy reliance on indirect taxes, inflation-driven price increases, and it weak wealth taxation system that created a fiscal environment. Because of this, low- and middle-income households shoulder a disproportionate share of public revenue. In such a system, taxation functions less as a collective responsibility and more as a mechanism of extraction (World Bank, 2025).

Can a fiscal system guided by ethics and justice reverse or change this trend? In a modern economy, exploitative taxation refers to policies and principles that ignore the ability-to-pay principle, prioritize consumption over wealth, and fail to translate revenue into visible social welfare. Such arrangements destroy public trust, deepen social divisions, and undermine both economic stability and moral legitimacy.

This is the main challenge that Policy Research Initiative for Zakat-Based, Interest-Free Economy (PRIZE) try to address. By addressing a zakat-based fiscal framework, PRIZE reframes public finance as an instrument of justice rather than just mere revenue generation system. A properly functional zakat system can reduce inequality, restore ethical accountability, and support inclusive welfare and help in economic growth of Pakistan. This system also offer a viable and practical alternative to exploitative taxation in the modern state.

Conceptual Foundations: Zakat and Islamic Economic Justice

Zakat plays a unique role in the Islamic economics. Conducting business as a religious duty and a formal economic body. Its spiritual component is much known, which is a pity, because people tend to undermine its financial value. Fundamentally, zakat is an obligatory giving of the stored wealth to specified social groups. Under strict regulations of eligibility, rates, and allotment. This is due to this rules-based character that enables zakat to be not only charity but a form of redistribution in place within the Islamic economic thought.

Principles of Islamic Economic Justice

The larger framework of Islamic economic justice is based on three related principles, which are perpetual circulation of wealth, outlawing of riba, and equity (adl). The economic loads have to be proportional to the ability of an individual to be fair. Even-handed extraction that does not consider vulnerability is not accepted. The purpose of the riba ban is to prevent the buildup of wealth by meaningless financial claims which have traditionally raised inequality. Taken together, these concepts aim to avoid wealth accumulation to the small elite. These principles are directly quantified by zakat. It mainly aims at diversion of idle wealth into economic inclusion and social welfare. (Al-Aasar Journal, 2022).

The ability-to-pay principle and Zakat are very close according to the perspective of the public finance. In the modern economic thought, the concept underlies the concept of just taxation. Zakat merely applies to individuals and entities that have income above a set income limit (nisab) unlike indirect taxes, which weigh consumers burdened irrespective of income level. This will ensure that resources in the subsistence level are not taxed. This design automatically safeguards the low-income groups and makes the richer groups financially responsible. On the theory of scholarly analysis, such a structure better addresses equity requirements than many modern tax instruments. These instruments are often based on regressive consumption taxes (Tanazur Journal, 2021).

Comparing Zakat and Conventional Taxation: A Structural Assessment

The present day taxation systems are structured around goals of revenue collection, redistribution and economic stabilization. Theoretically, when we refer to taxes, we are trying to correct inequality by redistributing resources of those with more resources to the welfare of the population. Practically, however, most third world nations, such as Pakistan, use indirect taxation, including the sales taxes and duties. Which are disproportionately on low- and middle-income households. This is the key issue of fiscal injustice because of this lack of connectivity between intent and outcome.

One of the weaknesses of the traditional taxation is, it is based on minimal compliance with the rule of ability to pay. Although there are progressive income and wealth taxes in this principle, the economic elites receive unfair treatment. This causes consumption to be the tax base center of interest and the system becomes retrogressive in nature instead of design. Research in the field of studies indicates that these systems can increase the revenue, yet at the same time, it leads to a greater inequality and a loss of trust in the society (Khan, 2019).

Zakat: A Progressive Alternative

Zakat is the sole progressive way of ensuring flow of wealth between high and low. Islam says that zakat is valid on such individuals whose income surpasses set limit. Unlike the traditional taxes, which were purely based on the enforcement, zakat incorporates both legal duty and moral responsibility, which decrease the motivators to violate and revolt. Multiple studies have conducted comparative researches in the Islamic public finance, which concluded that zakat correlates better with principles of equity-based taxation than most contemporary taxation instruments. (Gueydi, 2020).

It is also through zakat that there is a clear and direct relationship between welfare giving and receiving. Zakat is set aside to social categories that are defined by the Islamic law and thus transparency and intent are enhanced as opposed to the traditional tax revenues which often dissolve to generalized budgets. Such organizational transparency enhances conformity and strengthens legitimacy. The redistributive efficiency of Zakat means that, when used as part of a more general fiscal policy, it can be more effective in dealing with inequality in the country despite the fact that it is not a complete substitute of any taxation system.

Zakat's Socio-Economic Impact

The actual socio-economic outcomes of zakat make it unlike the conventional fiscal instruments because it is more than just a theoretical instrument. A study by countries where most of the Muslim population resides proves that well managed zakat programs increase economic integration, promote social integration and reduce poverty. Zakat creates a steady stream of capital that facilitates local spending and micro-economic growth by directing idle funds straight to poorer populations like the impoverished, the debated and orphans. Unlike the state welfare programs, which are marred by delays, leaks, and misallocation, the legally required and community-based nature of zakat increases accountability and also creates a sense of trust among the people ensuring that aid is received by the people it is intended.

Challenges in Implementation

There are still practical challenges in place. Mass effectiveness is based on administration, wealth measurement standardization and incorporation with modern banking systems. In the lack of transparent governance Zakat cannot be an effective systemic redistributive tool. To mitigate these risks and increase compliance academic research has proposed the utilization of digital collection platforms in addition to high levels of auditing and community oversight. (Al-Aasar Journal, 2022).

Whenever zakat is well institutionalized, it contributes to alleviation of poverty in the short-term and economic development in the long-term. Redistributing resources effectively reduces wealth inequality, encourages consumption by the poor and, indirectly, increases entrepreneurship in poor regions. In this respect, zakat can be understood as a social stabilizer, economic instrument, and moral provocation at the same time, which demonstrates that moral values and financial effectiveness do not necessarily contradict each other.

Pakistan's Context and Policy Integration

The institutional involvement with zakat in Pakistan can be traced back to the Zakat and Ushr Ordinance of 1980 that was initiated under the rule of General Ziaul Haq. The ordinance required an annual deduction of 2.5% on eligible bank accounts and some assets during Ramadan as a statutory method of zakat collection and distribution (The Zakat and Ushr Ordinance, 1980). Such legal structure provided zakat with an official fiscal presence in the state framework, yet its development has been unequal, being influenced by constitutional and administrative change.

In the 18th Constitutional Amendment of 2010, the federal ministry relinquished authority on zakat and ushr to the provincial governments and this resulted in different application across regions. Provinces make and administer their own zakat systems, a move that has localised administration as well as made things difficult to cohere federally (Islamisation in Pakistan, n.d.). The decentralization highlights the need to have harmonized policy in case zakat should be a wider redistributive tool.

Regardless of its legal existence, its contribution to the national kitty of Pakistan is small in comparison with its hypothetical potential. It is estimated that when utilized to its full potential, zakat resources in Pakistan would be a few percent of GDP a large amount compared to government budgetary appropriations but the government gains are significantly less because of compliance loopholes and lack of trust in state affairs by the peoples (Samra & Siddiqui, 2021). Practically, most families find it more convenient to give zakat over NGOs and community networks instead of government distribution systems not only due to cultural directives, but also due to distrust in the governmental distribution systems.

Conclusion and Call to Action

Zakat-based fiscalism is a viable way of achieving economic justice and social equality in Pakistan. It is not only an act of morality, but also a policy instrument that directly questions the structural frailty of the present tax regime by adding more weight to the low- and middle-income brackets and letting concentration of wealth at the top. Zakat promotes the circulation of resources from wealthy group to the eligible social groups in the society thus reducing poverty and enhancing social cohesion. Pakistan, along with other Muslim societies, has evidence that shows that when zakat is proper applied, it can lead to inclusive growth and a more balanced economic state (Al Aasar Journal, 2022; Samra and Siddiqui, 2021).

To make this potential a reality, it is necessary to take the reform seriously, rather than symbolically. Trust cannot be built without transparency, standardized assessment based on digital collection systems, and alignment with the national fiscal policy. The experience of Pakistan under the Zakat and Ushr Ordinance shows the potential and the constraints of the piecemeal implementation. That is why the initiative of PRIZE is relevant, it is inviting young scholars, policymakers, and researchers to reconsider the issue of public finance through the moral perspective. An informed zakat based system will help shift Pakistan to a riba free welfare state that reinstills dignity, responsibility and long term wealth.

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