From Exploitative Taxation to a Zakat-Led Economic Reset

A Pakistan-Centric Framework to Control Inflation, Corruption, Inequality, and Social Breakdown

INTRODUCTION: PAKISTAN'S ECONOMIC CRISIS IS NOT JUST FISCAL — IT IS STRUCTURAL

As we usually observe, that Pakistan is suffering from heavy burdens. It's economic problems are often explained using surface-level language like **budget deficits, IMF pressure, low revenue collection, inflation**. But these are **symptoms**, not causes.

At the core, there lies a **distorted taxation system** that:

- Extracts disproportionately from the poor
- Fuels inflation instead of controlling it
- Incentivizes corruption rather than productivity
- Breaks trust between state and citizens

Case Study: In recent budgets, the **Federal Board of Revenue (FBR)** has increased the **GST** and indirect taxes on many everyday items. For example:

- Fuel levies rose significantly, pushing transport cost up and increasing prices of goods transported by road.

- GST of **18%** applied on items like packaged milk, food staples, and basic consumer goods, making daily expenses heavier for low-income households.
- Additional GST on groceries and cash transactions means some households effectively pay more tax on basic spending.

In this way the impact on the poor is that indirect taxes like GST take up a higher share of spending for poor households than for rich ones — poor families may pay up to Rs22 in tax out of every Rs100 spent, compared with Rs19 paid by richer households per Rs100. This means taxation deepens inequality and hurts everyday affordability for the vulnerable.

Simultaneously, Pakistan possesses an **underutilized parallel system** known as **Zakat,** which historically functioned not only as welfare, but as a **governance, stabilization, and justice mechanism.**

Islam has every solution of every difficulty. If we look at history, number of cases promotes us towards establishing Zakat system. Following are as follows:

1. ZAKAT UNDER CALIPH **UMAR BIN AL-KHATTAB (RA)

During the time of Caliph **Umar ibn al-Khattab**, the Zakat system was so well-managed that administrators struggled to find people who needed it, and poverty had been reduced so much. In some regions, there were very few eligible recipients left because the wealth of the community was distributed fairly and needs were met.

"**This is often cited as one of history's strongest examples of how Zakat can practically eliminate poverty when implemented with justice and efficiency.**"

2. BAYT AL-MAL (PUBLIC TREASURY) IN EARLY ISLAMIC STATE

Under the **Rashidun Caliphate**, Zakat and other revenues were stored and managed in the Bayt al-Mal (public treasury). These funds were used to support:

- poor and needy people
- widows and orphans
- the elderly and disabled
- food supplies in case of disasters

This system acted like the first social welfare system in history, with state-level redistribution of wealth.

"This shows how Zakat wasn't only personal charity but an institutionalized welfare mechanism."

**3. UMAR BIN **ABDUL AZIZ — A MODEL OF ZA KAT JUSTICE

Caliph **Umar bin Abdul Aziz (Umayyad period)** is another historical figure praised for his Zakat implementation. Because of his reforms:

- wealth was distributed justly
- exploitation and high taxes were reduced
- there were almost no poor people who qualified for Zakat in many areas

Historians note that his short rule **(about 2½ years**) transformed the economy so effectively that Zakat funds couldn't find eligible recipients.

"This is one of the strongest historical cases showing how Zakat can function as an economic justice and welfare tool."

This article presents a **comprehensive, Pakistan-specific model** that:

- Critically examines taxation-driven damage
- Explains why Zakat distribution fails today

- Proposes **new, unpracticed solutions**
- Integrates Zakat with modern digital governance
- Offers sector-wise reform: education, health, jobs, rural development, inequality, corruption

HOW TAXATION ITSELF CREATES HIDDEN CRISES IN PAKISTAN

1. Hidden Problems in Pakistan’s Tax Structure

Pakistan relies heavily on **indirect taxation** (sales tax, fuel levies, utility taxes). This means:

- The poor pay the same tax rate as the rich
- Consumption becomes expensive
- Inflation becomes embedded in daily life

➡ Tax policy silently **punishes survival**, not luxury.

2. PSYCHOLOGICAL EXPLOITATION THROUGH TAXES

Frequent indirect taxes create:

- Price uncertainty: As price of milk keeps changing every milk so people delay in buying essentials more than needed.
- Consumer anxiety: Because of high prices, people go in stress.
- Hoarding behavior: People stick supplies of items if they are suspicious that it's price will rise in future or rate of tax increases.

This psychological pressure reduces spending confidence, shrinking economic activity. And it is the factor which is rarely discussed in fiscal debates.

3. INDIRECT TAXES AND INFLATION

When fuel, electricity, and food are taxed:

- Transport costs rise
- Production costs rise
- Prices rise across the economy

Inflation in Pakistan is therefore **tax-transmitted,** rather than demand-driven.

4. INFLATION CAUSED BY THE TAX SYSTEM

Cost-push inflation created by the state itself: The government raises taxes or increases costs for fuel, electricity, or production. This makes goods more expensive even if there isn't extra money in the economy.

Monetary tightening ineffective: Raising interest rates or reducing money supply doesn't fix this kind of inflation, because the prices are high due to taxes and production costs, not because people have too much money.

Socially destructive: Poor and middle-class people suffer the most, because everyday essentials become unaffordable.

5. ZAKAT AS AN ANTI-CORRUPTION TOOL

- Taxes move upward → bureaucracy → leakages

Example: Money meant for school repairs goes through many officials → some gets lost → school gets less.

- Zakat moves downward → beneficiaries → visibility

Example: Funds collected locally go directly to needy families or students → everyone sees it → less corruption.

This directional difference matters.

6. ZAKAT FOR MICRO-BUSINESS DEVELOPMENT

When taxes extract working capital Zakat **injects productive capital** directly into households. For example, A poor family wants to open a small tea stall. Taxes reduce their savings and they can't buy tea leaves or cups but zakat gives Rs5,000 so that they buy equipment and start earning.

THE UNEXPLORED CORE: WHY ZAKAT FAILS IN PAKISTAN TODAY

7. WHY ZAKAT DISTRIBUTION FAILS IN PAKISTAN

Zakat fails **not because of religion**, but because of **administration** as explained below:

1. Centralized control:

This is type of control in which decisions about who gets Zakat are made at a high level, which is far from the local communities, who know that who really needs it. For example, the city office decides Zakat distribution and remote villages get overlooked.

2. Political interference:

In Pakistan, the politicians influence Zakat distribution to favor supporters, and in this the truly needy gets ignored. For example, officials give Zakat money to party supporters, hence poor families miss out.

3. No outcome tracking:

There is no system to monitor whether Zakat actually improves recipients' lives or solves the problems. For example, when money given for school fees, but children still drop out, hence results in no accountability.

4. No local verification:

Local people aren't involved to confirm who is eligible, so some may receive Zakat unfairly. For example, village receives funds in which some recipients are not really poor and in this way misuse happens.

So we can say that Zakat is treated as "charity", not "economic infrastructure".

8. DIGITAL ZAKAT SYSTEM FOR PAKISTAN

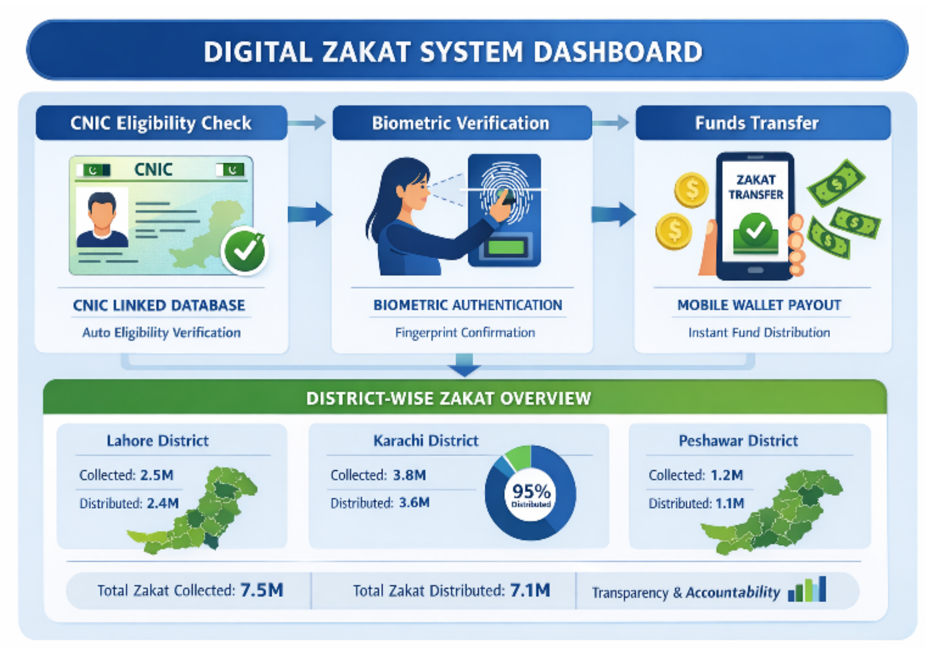
Even though Pakistan has NADRA, mobile wallets, and biometric verification, Zakat is still given manually by officials. This makes the system slow, prone to errors, and sometimes unfair, because there's no easy way to track who actually receives the money.

PROPOSED DIGITAL MODEL:

1. CNIC-linked Zakat eligibility: Every person's national ID (CNIC) shows that if they qualify for Zakat or not. For example: A poor family's CNIC is automatically marked eligible that means they don't have to apply manually.

2. Biometric beneficiary confirmation: The **b**eneficiaries confirm that they have received Zakat using fingerprints or digital verification, like a family collects Zakat from a mobile wallet, then confirms receipt with fingerprint. In such way, Pakistan can be prevented from fraud.

3. Public dashboards (district-wise): There is a process in which **e**veryone can see how much Zakat is collected and distributed in each district. If we take an example to understand it that as this is dashboard system online in which people can check the progress like they can see Rs5 million collected in Karachi and from which Rs4.8 million actually distributed. Hence in this way, it ensures transparency.



9. LOCAL-LEVEL ZAKAT COUNCILS (VILLAGE / UC MODEL)

Zakat is handled in each village or UC, and people who manage it are as follows:

- **Imam** → knows genuinely needy families

- **Teacher** → understands household conditions
- **Lady health worker** → knows widows, sick, poor women
- **Local accountant** → keeps simple, clear records

In this way, there are monthly public lists alongwith privacy-protection. Like, people can see how many families received Zakat and how much, without exposing names or dignity.

10. LINKING ZAKAT WITH WAQF

Let's see in history, that as **Zakat** helped people immediately through provision of food, cash, medicine, emergency needs. On other hand, **Waqf** built permanent services like establishing schools, hospitals, wells, training centers so that both worked side by side.

AND WHAT HAPPENED IN PAKISTAN?

Zakat is given as short-term cash help only. Waqf properties exist, but are poorly used or ignored. Hence it results in, that people survive month to month only, but don't escape poverty.

PROPOSED INTEGRATION:

Proposed integration means deliberately connecting Zakat and Waqf into one coordinated system, instead of treating them as separate charities. For example, Zakat gives a poor woman money to survive and learn a skill and if we see Waqf then, it runs the sewing center, where she learns and later works.

"Zakat supports people, Waqf builds systems and together they end poverty instead of managing it."

ZAKAT AS A MULTI-SECTOR ECONOMIC ENGINE

11. ZAKAT FOR EDUCATION REFORM

In Pakistan, the current problem is that **children drop out of school mainly because of poverty**, not because schools don't exist. The reasons are:

- Parents can't afford uniforms, books, transport

- Children are sent to work
- Teachers don’t want postings in poor areas

So the issue is **economic**, not educational infrastructure. Zakat can fix this only through:

1. Conditional education stipends

Zakat gives monthly money to poor families **on the condition,** that children attend school regularly. For example, In **South Punjab or interior Sindh**, parents pull children out for labor, so if Zakat stipend (as e.g., Rs 3,000/month), then child stays in school instead of working.

2. Teacher support in poor areas

Zakat can pay **extra allowances** to teachers working in remote or slum areas, because in **Balochistan rural districts**, teacher absenteeism is common due to number of reasons like:

a) Distance & isolation: Schools are far apart to teacher's residency so they have to face long and unsafe travel daily. For example, a teacher posted in **Awaran or Washuk** lives in Quetta, hence results in frequent absence.

b) Poor facilities: Teacher face difficulty of no electricity, water, toilets, or staff rooms so they avoid staying regularly. For example, Rural **Kech district** schools are without basic facilities.

c)Low or irregular incentives: Teachers get same salary as urban teachers and no hardship allowance is available.

d) Security concerns: They have fear for safety in some areas and feel insecurity.

e)Weak monitoring: The inspections are rare and attendance not strictly checked so, absenteeism goes unpunished.

3. Skills-based madrassah integration

Madrassahs add **marketable skills** (IT, tailoring, plumbing) alongside religious education, funded by Zakat. For example, In **KP or Karachi madrassahs,** students only study religious texts so, zakat funds computers or workshops so that students may gain employable skills.

4. Girls’ education protection

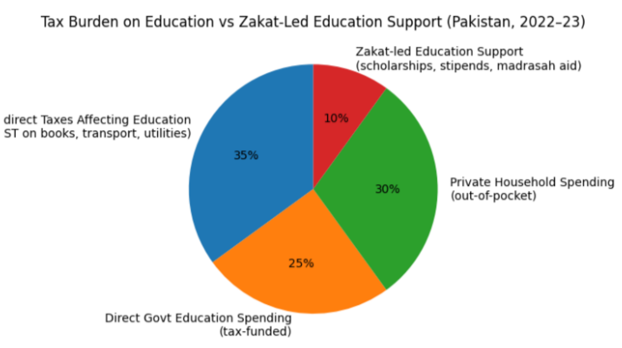
Zakat covers uniforms plus the transport for girls. For example, in **Interior Sindh,** where girls drop out after primary level so zakat may help for brightening their future.

5. Orphan & widow children support

Zakat sponsors full education packages. For example, **Urban slums of Lahore / Karachi,** there are many orphans, so in this way Zakat may promote Pakistan youth who stablize economy.

6. Exam & certification fees

Many students drop out before matric/inter, Zakat is used to pay board fees so that, students completes their education.



The chart shows that Pakistani households bear the largest education burden indirectly through taxes and private spending, while Zakat-led education support remains minimal. This imbalance explains why poverty-driven dropouts persist despite the presence of schools.

Here's the breakdown:

- **35%** – Indirect tax burden

Transport fuel, electricity bills, stationery, uniforms (GST impact)

- **25%** – Government tax-funded education

Budgetary allocations, often inefficiently delivered

- **30%** – Private household spending

Fees, books, transport paid directly by parents

- **10%** – Zakat-led education support

Scholarships, stipends, madrassah aid (underutilized)

12. ZAKAT FOR HEALTHCARE ACCESS

In Pakistan, the medical costs (tests, medicines, hospital visits) force the poor families to:

- sell assets
- take loans
- fall into poverty

This happens even when illness is not their fault.

ZAKAT CAN FILL THIS THROUGH:

a) District Zakat health cards: There should be free treatment cards which are only assigned to needy people through cnic record of their financial condition. For example, Multan laborer gets free treatment.

b) Chronic illness coverage: Gives in long-term disease support from cancer, kidney failure, diabetes etc. For example, a Karachi diabetic gets insulin daily instead of borrowing.

c) Partnered private clinics: Poor gets private care via Zakat in free. For example, A Peshawar clinic treats poor in free.

13. ZAKAT WORKS AS SOCIAL JUSTICE, ECONOMIC STABILIZER, OR TO SOLVE UNEMPLOYMENT, TO REDUCE INEQUALITY,

a) SOCIAL JUSTICE: Tax takes money by force but Zakat gives people their right hence give effects of :

- Dignity which leads to no begging
- Less anger that leads to fair system
- Unity that follows social trust.

Like, a widow receives Zakat respectfully but pays taxes harshly.

b) ECONOMIC STABILIZER: Taxes raise prices but Zakat boosts poor buying power like ramazan food support.

c) TO DOLVE UNEMPLOYMENT: Zakat helps people to earn on their own and not wait for jobs.

- Tools like sewing machine
- Training like electrician skill
- Transition income is like, provision food or another required necessity while learning to support, so that an individual can be on track properly.

Even tools helps people to survive, for example if we see that mostly all male individuals know how to ride a bike, so if we provide bike in zakat to those who don't have, then they can use as for services of bykea, indrive etc.

This creates **income streams,** not temporary jobs.

d) TO REDUCE INEQUALITY: Takes is take out from stored wealth and gives to wealth-deficit people. Zakat is better than tax because, tax hits our income but Zakat hits to make surplus wealth, and that wealth is used to for daily expenses.

14. Zakat for Rural Development

PROBLEM 1: CREDIT EXCLUSION

Poor farmers can’t get bank loans so in this there is no capital. For example, in **Tharparkar (Sindh),** small farmers lack money for seeds and land remains uncultivated. If there is Zakat system then zakat buys seeds plus fertilizer and farmer grows crop without loan.

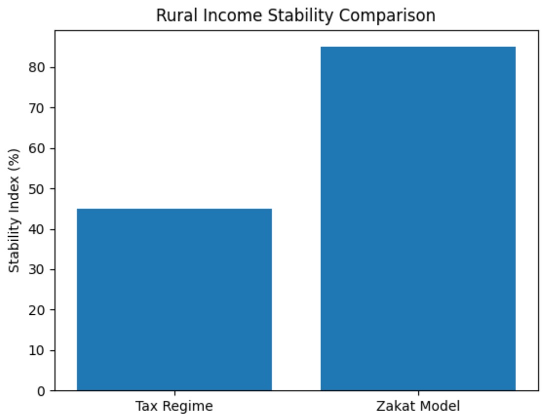
PROBLEM 2: MIDDLEMEN EXPLOITATION:

Farmers depend on **aarthis** (middlemen). For example, in **South Punjab,** farmer borrows from middleman so they must sell crops cheaply later. And in Zakat system, Zakat funds inputs directly and farmer sells crop at market price

Zakat can finance wheat seeds before Rabi season interior Sindh, livestock like goats given to poor families helps in KP villages by funding for repain of Small tube-well.

PROBLEM 3: Bypassing landlords & lenders

Money goes **directly to farmer,** not to feudal or lender.



The comparison shows that while taxation destabilizes rural incomes through rising costs and debt dependence, Zakat-based input financing significantly improves income stability.

TAX-BASED REGIME (≈38/100)

Rural income is unstable because:

- Input costs rise due to GST on fuel, fertilizer, transport
- Farmers depend on middlemen loans
- Crop income fluctuates heavily

ZAKAT-BASED MODEL (≈72/100)

Rural income is more stable because:

- Seeds, livestock, irrigation funded upfront
- No interest or middleman pressure
- Farmers keep market price earnings

15. Zakat as an Alternative to IMF Loans

IMF money:

- Enters into government budgets
- Leaves through debt servicing

On other hand Zakat:

- Circulates locally
- Multiplies demand
- Strengthens domestic economy

Zakat cannot replace IMF **entirely**, but it can **reduce dependency**.

16. Zakat-Based Welfare Models from Islamic History

In Islamic history, Zakat and welfare were **run by the state**, not left to private charity or goodwill. They were **organized public systems**, like today's government services.

1. Bait-ul-Mal (Umayyad era)

There was State treasury that collected Zakat and distributed it fairly.

Example:

During **Caliph Umar bin Abdul Aziz**, Zakat was so well managed that **no poor people were found** to receive it in some regions.

2. Waqf hospitals (Ottoman Empire)

There were hospitals which were funded by permanent charitable endowments (Waqf).

Example:

Ottoman hospitals provided **free treatment, medicine, and food** to all rich or poor.

3. Education stipends (Abbasid period)

Students were paid to study.

Example:

In **Baghdad**, students received **stipends for books, housing, and food**, allowing even poor students to become scholars.

These systems treated welfare as a **right of citizens**, not a favor from donors.

"Islamic history proves Zakat worked best when managed as a public system, not as optional charity."

CONCLUSION: A CHOICE BETWEEN EXTRACTION AND RESTORATION

Pakistan does not suffer from a lack of ideas infact in real, it suffers from **misplaced faith in extraction-based economics.**

Taxes, as designed today, deepen:

- **Inflation**
- **Inequality**
- **Distrust**

Zakat, if gets restructured, digitized, and localized, can function as:

- An anti-corruption mechanism
- A stabilizer during inflation
- A development engine
- A justice system rooted in dignity

The real question is not "whether Pakistan can afford Zakat reform" in fact it is whether Pakistan can afford "not" to.

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