

# Appraisal of the Status on Research on Labor Economics in the Islamic Framework

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**Abstract.** This paper reviews the literature related to the concept and nature of labour in an Islamic perspective which was published during the last thirty years. This review guides us that the labour market in Islam is governed by the Islamic laws of fairness, justice and reward that is equivalent to the job done. It has been also observed through literature survey that most of the conventional concepts, like theory of labour value, have been developed by earlier Muslim jurists. On the other hand it is also observed that most of the works in this area discussed the normative aspect of the labor market whereas few attempts can be seen discussing the positive aspect. The review of literature guides us that there is a need of the time to develop the new theoretical and empirical models for the Islamic labour market, which should be different than the conventional one. This paper also proposed some strategies for the development of new models for the Islamic labor market which should be compatible with the modern world.

Recently the literature on Islamic economics is passing through a phase of development. The knowledge on public finance, monetary economics, and development economics in the context of Islam has flourished well. Despite of the importance of the human resources in both of the systems, i.e., conventional and Islamic, there is still a thrust towards the development of labor economics in current Islamic economic literature. A limited efforts can be seen in this area. Keeping the above in view an effort will be made to evaluate the state of research in the labor economics in the context of Islam.

The main intention of this paper is to discuss the state and nature of labor as a factor of production in the context of Islam discussed in the published literature. A survey of literature related to the economics of labor in Islam will be presented briefly. An attempt will be made to search for the answers to the following questions:

- (i) How the published literature in this specific field filled the gap and have given the appropriate answer to the question of conventional labor market in a capitalist framework?
- (ii) If the market's invisible hand is not allowed to determine the wage, then how it is discussed by the Islamic Economist?
- (iii) If the wage not be determined by supply and demand in the market, then how is it tackled by the Islamic Literature?
- (iv) If it is different, then how is it different from the conventional theory? How the Muslim Economist dealt with this issue?
- v) What are the suggestions for the development of this subject and which type of steps should be taken for the promotion of the research of this area?

This paper will also identify the areas of potential research in this field. The paper will present the different dimensions of the published material and also find those corners which are still untouched by the researcher. It will also highlight how one can develop the methodology of the research in this subject. The author has surveyed the whole work in an earlier work (Azid 2005). This paper is organized on issue wise rather than author basis.

## Section I

This section presents a brief survey of literature related to the economics of labor in Islam. There are some general and specific conditions observed in the current literature of Islamic economics regarding this very subject. Most of them are as follows; ‘Allah is the creator’, ‘man is the vicegerent of Allah on this earth’, ‘man is accountable to Allah for all of his actions’, ‘a rational Muslim seeks reward in this life as well as in the life hereafter’, ‘all Muslims are brothers/sisters and enjoy equal rights’, ‘labor as a factor of production is the basic element of economic activities’, ‘Islam condemns unemployment’, ‘any type of oppression is not allowed’, ‘the main objective of the Islamic state is not only to increase the welfare of the society but also to protect the Islamic rights of Muslims and the human-rights of non-Muslims’, ‘the circulation of capital is very much desired and ensured in the system of Islam’, ‘the relation between man and the universe, as defined and clarified in the Qur’an, is as a relationship of utilization’, ‘development and subjugation for man’s benefit and for the fulfilment of his interest’ (Azid T, 2005).

### 1.1 Concept and Nature of Labor

In the system of Islam labor is well recognized as a factor of production and as is participating in the process of production (Islam clearly differentiates between *Halal* and *Haram* economic activities, so in an Islamic state a worker can only participate in the process of *Halal* activities). Tabakoglu (1983) states that there are two broad factors of production in the system of Islam, i.e. ‘*Labour and Ma’al*’ (in very broad and generalized terms ‘*Ama’al*’ is used by him for labour, i.e., composed of *Ama’al-i-saleh*, i.e., good deeds and ‘*Saiy*’ i.e. efforts). Where enterprise and organization are included in labor, capital and natural resources are included in the concept of ‘*Ma’al*’. Uzair (1983) commented on the terminology presented by Tabakoglu (1983) and added that self employed people are not mentioned by the scholar, thus there is nothing un-Islamic in it. ‘*Ama’al*’ means work not labor, it has a very broad sense. The term labor has become wider, to include not only the industrial worker in the limited sense, but also white collared personnel, as well as the managerial personnel in any production unit. Thus for all practical purposes the term labour now denotes all human resources (Uzair 1980).

Many scholars, e.g. Sabazwari (1972), Qadri (1977), and Tabakoglu (1983) explained this concept in a different way. A worker is expressed with the term called ‘*Ajir*’ in *Islamic fiqh*, i.e. a worker is the person whose labor is hired in return for a wage (every body who works in return for a wage is considered a worker). It implies a classless

society, whereas Islamic traditions consider society as a whole, not as a composition. Islam considers labor as a whole that consists of material and moral aspects. In a narrow sense labor is qualitatively a production factor only (Tabakoglu, 1983). *'Iktisab'* is the proper word that should be used, which means striving. It means that the basic factor of production is action (Qadri, 1977). Sabazwari (1971, 1972) made a difference between *'Ajir'* and *'Kasib'*; a wage earner is *'Ajir'* and only an earner is *'Kasib'*. *'Ajir'* is classified into two categories; *'Ajir al mushtarak'* (subject to labor), is obliged to compensate the damages to a particular commodity caused by him (Tabakoglu 1983). *'Ajir al-has'* (subject to time, working for an institution or for a person) is not responsible for damages occurring during the production process (Khan, 1969; Tabakoglu, 1983 and *Majalla* article 610).

Many scholars have given arguments about the importance of manual as well as mental labour. Al-Farouqi (1980) explained that Islam does not distinguish between mental and manual work in social graduation, and both sorts of labor have their own importance and significance. Like the secular system, it is not permitted to make women and children work for less wages, because exploitation of human resources is not allowed in Islam (Qureshi, 1959; Tabakoglu, 1983). Labor is a basic factor of production (Sabazwari 1971). Qadri (1971) describes the professions adopted by the different Prophets of Allah (swt), e.g. Dawood (pbuh) was a blacksmith.

The qualities of labour are narrated in the Qur'an as *amin* (trustworthy) and *qawi* (strong). Islam discourages wildcat strikes and lockouts (Qureshi, 1959; Tabakoglu, 1983). Everyone has two roles: laborer and citizen, as a laborer (s)he is entitled to get his/her share in the form of wage from the wealth, which (s)he has produced. In addition, as a citizen, he/she can demand equal opportunity and free competition. As a vicegerent to *Allah* (swt), (s)he has to control the economic activities and human value should be given to him (Qureshi 1960). Islam encourages the skilled labor force, it is the duty of everyone to learn and then apply whatever he learned (*Ibn Majah, Muqaddimah*). In any case no one can be regarded as a learned man as long as there is no application (*Darami, Muqaddimah*).

Personal labor contracts are valid in Islam as a principle, *aqd al-ijarah* (contract of labor hiring) is permitted in Islam, no restriction is placed on the period and it might be full time or part time (Khan, 1969; Tabakoglu, 1983; Qureshi, 1959 and 1960; Sabazwari 1972).

## 1.2 Importance of Labor

Muslim scholars interpreted the importance of labor in different ways. A human being who is productive and is useful to mankind, obtains the right of being one of the representatives of Allah (swt) on the earth as he believes in Islam (among others Qureshi, 1959; Tabakoglu, 1983; Khan, 1969). All things are created to satisfy the materialistic needs of human beings (Tabakoglu, 1983). Islam assigns a great value to men's productive power that is labor (Khan, 1969; Tabakoglu, 1983; Qureshi; 1959 and 1960; Sultan, 1992). That work alters production has as significant a value as *Ibadah* (Tabakoglu, 1983; Khan, 1969). Anybody who works in a job providing a utility to society performs a *'fardh'*.

Working is an obligation for an individual from an Islamic as well as social perspective (Tabakoglu, 1983; Khan, 1969). As a human being labor is considered as an independent factor of production. The working environment must be humane, free from any type of exploitation and pressure (Tabakoglu, 1983; Khan, 1969). The worker therefore cannot be forced or allowed to work in an unhygienic environment (Khan, 1969; Qureshi, 1959 and 1960).

A share of the profit should be distributed between workers and employers (Tabakoglu, 1983; Khan, 1969; Qureshi, 1959 and 1960). Qureshi (1960) stated that share and losses are born by both partners, as labor endures the loss in an earning capacity that occurs in depreciation of his physical strength year by year (generally loss is considered in wage earnings, but Qureshi explains this depreciation in terms of human capital). In addition to this, labor regularly and consistently faces occupational hazards and there is additional depreciation in the earning capacity that is neither determined nor compensated. He further added how strange it is that the value of capital is maintained year by year; if there is any loss it is covered in the following year or two years. But there is no guarantee for the workman that costs (depreciation in the productive capacity as well as health) will be paid back to him.

Islam stands for equal pay for equal work, no work is to go unrewarded (al Farouqi, 1980). This should be preferred to other factors of production (Khan, 1969). To consume is as much a *'fardh'* as to perform regular prayers is (al-Halabi, 1309: 168). For a Muslim to earn enough money for himself and for his family's expenses and for his debt is also a *'fardh'*.

Islahi (1988) believes that labor, which is an important economic factor, has been considered in fixing the different rates of *zakah* and fulfils the requirements of justice, economy and equality. If the same rate were levied for all kinds of property, it would have created a disincentive to work.

### **1.3 Capacity and Care of Workers**

Muslim scholars have the consensus that workers should not be enforced to work beyond their capacity and the working environment should be humane. Khan (1975) said that the working hours must be according to the climate, working conditions and energy state of the worker. The worker should work till he is able to do the job without taxing himself unduly. The workload should be evenly distributed.

Islam presents a just approach towards the training and education of workers (Qureshi, 1959; Khan, 1975). It is the duty of the entrepreneur to train his labor force and arrange the basic education for them, which is necessary for work.

Qureshi (1960) considered a skilled, trained and educated labor force as similar to new efficient machinery. Khan's point of view is different and considered training and education as the basic needs of the working class. Qureshi (1959) is in favor of calculating the depreciation of workers like physical capital. Depreciation of workers should be calculated and at the end of his working life (assumed 55 years) paid to him as gratuity. Thus, the working condition should be dignified environment (Tabakoglu,

1983). Qureshi and Khan emphasized on the working conditions and environment. In this system the relationships are not merely mechanical but become fraternal.

A Muslim employer cannot be 'righteous' until and unless he has the desire to protect his employee from the unnecessary burden of labor. The core of the relationship is brotherhood between the worker and employer.

It is also the duty of entrepreneurs to look after the health of their workers and provide them with medical facilities. The health of workers also deserves the owner's care and attention. Khan quotes: "The Holy Prophet (pbuh) was very careful and conscious about the health of the household servants and used to arrange their treatment."

#### **1.4. Labor Less Earnings**

Islam condemns earnings in which labor is not participated or earned by the exploitation of labor. This is the one reason that usury, gambling and speculations are prohibited in the system of Islam. From the above Qur'anic injunction it is observed that the business of interest is really a major sin. By prohibiting interest, and therefore by encouraging productive economic earnings, Islam provides the opportunity of employment. However, the same order for the workers, and working is as important as the other obligatory duties like praying, fasting and jihad. It is better than begging, or being a burden on others even under the worst circumstances. Dumping, interest earnings, speculation, stock-holding, gambling and begging are not allowed in Islam.

Mawdudi (1969), Qutb (1968), Tabakoglu (1983), Azid and Ahmad (1985), Uzair (1980) and a number of other studies discussed these issues in the context of the modern world. This is also an instrument for the distribution of wealth on the basis of equity and prevents the concentration of wealth into a few hands. Azid and Ahmad (1985) conclude that "unearned income means an increase in assets without any contribution of labor, and causes the accumulation of capital into a few hands."

#### **1.5 Rights and Duties of Workers**

Islam does not differentiate between Muslim and non-Muslim workers. The rights of labor are clear in this system. As expressed by Sadar (1980) and al-Farouqi (1980) that labor should be according to capacity, a decent standard of living and freedom to work. It is observed that the rights of workers are as significant as the performance of daily prayers. Tabakoglu (1983; after consulting the article 425 of Majalla) concludes that even though he (the worker) does not work at all, because of inadequacy of the working environment, *i.e.* absence of raw materials, electricity, etc. a worker must obtain his wage, because he concluded a contract previously. An employer is obliged to compensate the worker's loss if he wants to dismiss the worker before the time of the contract. This also implies the duties of workers.

According to the elucidation of the jurists of Islam, the word 'underweighing' and 'undermeasuring' in the above verse includes in its connotation even the worker who receives full wages that have been agreed upon, and yet does not give the full measure

of work, and employs the portion of time that he has given away to the employer in doing some other work, contrary to the wishes of his employer.

These injunctions, thus, declare the shirking of work to be a great sin, and make it quite clear to the employee that once he has taken upon himself the responsibility of doing some work for an employer, he is under obligation to complete it with perfect honesty, otherwise he will not be able to get a positive reward in the life hereafter which is the ultimate destination and goal of Muslims (Azid and Ahmad, 1985; Azid and Aslam, 1989; El-Qudah, 1987).

Muslim scholars have the consensus that the damage that occurs as a result of a worker's error should be compensated by him through the worker's wage. It is not legal for them if they reduce the tempo of the work. A worker should perform his job faithfully without any interruption. However, it does not mean that the employer is free and he has no obligations towards his duties. The Holy Prophet (pbuh) also says that there are three people who will find him on the day of judgment as their enemy. One of the three is: "The man who employs a worker on wages, then takes the full measure of work from him, but does not pay him wages" (Bukhari). Since the rights of workers and of employees have been determined by the *fiqh*, there is no need for strikes and lockouts in the Islamic system.

## **1.6 Labor and Capital**

Islam does not refute the importance of capital as a factor of production but considers labor as a basic source of value. *Zakah*, *Ushar*, prohibition of *Riba* and other Islamic injunctions prevent capital from being excluded from the production process (Qureshi, 1960; Khan, 1968; Azid and Ahmad, 1985; Tabakoglu, 1983; Azid, 1989; Ahmad, 1969; Khan, 1992). Given the same economic conditions and resources, comparatively in the Islamic economy, the circulation of capital is higher than in the secular economy (Tabakoglu, 1983; Azid and Ahmad, 1985; Azid, 1989). However, labor is the basic factor of production (Qureshi, 1960; Khan, 1975; Tabakoglu, 1983).

Muslim economists claim that *Ibn Khaldun* is the first scholar in the history of economic thought who stated labour to be a source of value and as the base of property (Tabakoglu, 1983; Hasan, 2007). However, other factors of production are not ignored but there is only emphasis on the vitality of labor and furthermore, that the capital notion, in an Islamic legal frame, is nothing but a factor of production and should participate in an economic activity together with labor and obtain a profit as well as loss in this economic activity. Uzair (1983) comments on it and pointed out that the labor theory of value has a political connotation of class struggle to Marxian theory and traditions, whereas in Islam there is no concept of distinction and struggle among the different segments of society. The Islamic economic system does not separate both factors of production from each other and presents the solution to the conflict between labor and capital. It is observed from the above Qur'anic verses that everything produced by Allah (swt) is in due balance, so these factors of production are not a perfect substitute but to some extent are complementary to each other. No doubt everything is produced by Allah (swt) for the benefit of human beings (Faridi, 1955; Tabakoglu, 1983; Khan, 1975; Uzair, 1983).

In the broad concept of ‘*Ma’al*’, land and natural resources are included, and this is the broad concept of capital whereas profit is the reward of capital (Najjar 1973, Tabakoglu 1983). Uzair (1983) is of the opinion that land and natural resources should be distinguished from capital, and it is not un-Islamic to deal with them separately. The injunction of *Ushar* and *Khumas* is the evidence that we can deal with them separately. Furthermore, Uzair suggested that capital and enterprise must combine together to constitute a factor of production. Abd Saud (1967) believes capital as resulting from operations of human labour on elements of nature. Baqir (1968) is of the view that capital results from the operations of human elements in production. Mannan (1970) considers capital not as a fundamental factor of production but as an embodiment of past land and labor. Tahawi (1974) includes land and capital in wealth, so according to him only two factors of production exist, i.e., wealth and labour. Islam also distinguishes between working and fixed capital (Qureshi, 1960; Tabakoglu, 1983). It is of course admissible that rent and depreciation may be paid first for the security of business but it should not include the depreciation of circulating capital. Having disbursed the amount for the two items mentioned above the wages fixed should be paid and whatever is left should be considered as profit. Then out of the profit, a share of capital after every complete cycle of business, and a bonus share of the workman, may be determined. All protection for the preservation of capital at the cost of life of citizens should be withdrawn (Qureshi, 1959). Malik (1960) said that it can be concluded from above that capital is not a factor of production. Qureshi (1960) further added that when we say that the active human partner of production be given its due share it very clearly means that capital is taken to be a factor of production. Labor and capital are considered as separate factors of production and they are not against each other (Tabakoglu, 1983; Qureshi 1960).

### **1.7 Relationship Between Employer and Employee**

When someone contracts with a worker especially for his services (whether *al has* or *al mushtarak*), he must do the work himself and must not replace himself with someone else without his employer’s consent (Khan, 1975; Tabakoglu, 1983; Khan, 1968). Any contract by force and by threat is not legal and permissible (Tabakoglu, 1983). Employer and employee is not an absolute but are relative terms in Islam, i.e., a person can be both worker and employer simultaneously (Tabakoglu, 1983). Workers must be honest, and should perform their duties faithfully without any intervention (Tabakoglu, 1983; Khan, 1975; Khan, 1968; Qureshi, 1959; Ahmad, 1986).

Khan (1975) quoted the statement of the second caliph Umar Ibn Khatab as: “The best officer is the one whose subordinates are happy with him and the worst is that whose subordinates groom under his offensive hands”

Islam also advocates a just distribution of profits (Khan, 1975; Tabakoglu, 1983; Qureshi, 1959). There is a great emphasis on co-operation between labor and enterprise and on mutual consultation as a mode of decision-making (Hameedullah, 1936; Yusuffuddin, 1950; Gamaluddin, 1965; Tahawi, 1974; Rasul, 1976; Hadi, 1976; Assal, 1976; and Ahmad, 1986).

It is hard to observe the clash between labor and enterprise because of the concept of the brotherhood (Qadri, 1977; Ghaffari, 1983; Azid and Ahmad, 1985; and Azid, 1989). It is the duty of the Muslim employer to protect the rights of his workers. If the workers are Muslim then deal with them as brothers and protect their Islamic rights and if they are non-Muslims then protect their human rights (Azid, 1989). The owner-worker relationship is a mutual contract; an unjust contract has no value (Khan, 1975). Since Islam determines all rights and duties for both parties, there is a minimum chance of conflict occurring (Tabakoglu, 1983; Qureshi, 1960). However, small scale is the solution for the good relationship (Tabakoglu, 1983), while Islam does not impose any restriction on large scale and small scale (Uzair, 1983). Any status of human being in this world in the form of an employee or employer is the test for him (Tabakoglu, 1983).

### **1.8 Division of Labor**

In the Islamic system the economic differences between individuals are never ignored. This stratification is necessary for a lively economic activity (Tabakoglu, 1983; Khan, 1975; Mawdudi, 1969; Qutab, 1968). Islam appreciates skill and experience and permits hierarchy (Khan, 1975). On the other hand, the concept that some families are born with preferential rights and the workman have to toil for these few families is unacceptable in any phase of social life (Qureshi, 1959). Wages must be fixed according to the profession, skill, risk to life and health, and depreciation of health and physical strength of the workman, location, climate, environment and conditions.

However, it does not mean that in an Islamic society different persons should be dealt with discrimination. In an Islamic state every citizen is equal; the only consideration is the level of his skill, training and efficiency in the context of labor.

### **1.9 State and Worker**

The role of the government is very prominent in the theory of labor economics. The Islamic state becomes a guarantor for justice and security in business life. Because liberty and mutual consent are essential in contracts, the parties cannot force each other to accept their conditions (Tabakoglu, 1983; Qureshi, 1959; Khan, 1975; Khan, 1968). Education (training of workers) in Islam is meant to be free and its expenses are to be born by the state (Khan, 1975; Qureshi, 1959).

There should be residential facilities provided by the state. It is the duty of the government to frame the laws about the workers' security. Under unavoidably serious circumstances, the trader can also cancel a contract but it is the responsibility of the state to see that this is being done justly and the worker gets alternative employment (Khan, 1975; Qureshi, 1960). Wages should be protected by the state (Al Farouqi, 1980). Chapra (1970) is in favor of the legitimate role of the state in fixing the wage rate. It is the responsibility of the state to create a good environment for the labor-enterprise relationship (Qadri, 1977). Khan (1975) states that "Islam is a combination of voluntary and legal enforcement. For example, Islam, while asking the trader to eschew maltreatment towards workers, does not leave it to the individual to redress himself; it has formulated a specific code to see that the contract is not violated and the state is the



one to supervise the enforcement of these laws. It is for the state to fulfill its obligations.”

The state can act as an arbitrator in assessing the basic quanta of a worker's requirements (Khan, 1975). It should ensure that a worker is not made to unduly suffer and provide alternative employment give unemployment allowance (Khan, 1975; Azid, 1989; and Qureshi, 1960). An Islamic state does not distinguish between a Muslim and a non-Muslim. Every citizen of the state has this claim.

It is also the duty of the state and society to increase the survival potentiality of businesses. In the failure situation of businesses, resources will not be fully utilized and the problem of unemployment will arise (Qureshi, 1960).

### **1.10 Supply of Labor**

Implicitly, almost every one discussed the supply of labor but Azid and Ahmad (1985) discussed this subject in detail. For the smooth running of the system, the rights of workers and employers are determined by *Sharia* in Islam (Khan, 1975; Tabakoglu 1983, Azid and Ahmad 1985). Time, efficiency and number of workers are the components of labor supply. Efficiency in the Islamic economy will be greater than in the secular economy with the same set of resources and tastes (Azid and Ahmad, 1985; Azid, 1989; Khan, 1968; and Ahmad 1969).

The utility of labor is dependent on his income, leisure and a set of variables that affect the utility of a Muslim worker. Reward hereafter has a positive affect on the utility of a Muslim worker. As it is observed in the above discussion a rational Muslim has more preferences for spending in the way of Allah (swt), helping the needy brothers then fasting, praying and so on. Labor-less earnings are *haram*, i.e., gambling, interest, black marketing, etc. Begging is disliked by Islam.

All these variables are an impelling force for a Muslim to work more, as a result of which efficiency will increase in the economy. A Muslim worker should be honest and efficient.

No one should become a burden on the others. The concept of brotherhood between labor-enterprise will increase the number of hours and number of workers. All these forces are the main reasons that in the Islamic state the supply of labor will be higher than the secular economy with similar basic conditions (Azid and Ahmad, 1985; Azid and Aslam, 1989). However, the value of leisure has its own significance.

With more circulation of capital due to the injunction of *zakah* and prohibition of *riba*, the productivity of labor will increase, which has a positive effect on the supply of labor (Azid, 1989; Azid and Ahmad, 1985; Azid and Aslam, 1989; Khan, 1975; Khan, 1968). Owing to the respect of labor in the system of Islam, more preferences are given to work than begging and the *zakah* payer has more utility than the receiver (Zarqa, 1980; Khan 1983; Azid and Ahmad, 1985).

## 1.11 Demand for Labor

It is well recognized that every economy requires an autonomous demand-generating group (ADG). The ADG is helpful in increasing the aggregate demand and ultimately the level of employment. Demand can be either of a consumer's goods-consumption or producer's goods investment. If the desired level of investment is to be raised, the demand for consumption and investment should be increased.

Consumption and investment are the two pillars of Keynesian theory. However, Keynes is not very hopeful of consumption because consumption is dependent on propensity to consume, which is rather stable and remains unchanged in the short run. Consumption levels remain restricted in capitalistic societies because of a high concentration of wealth that is a constant feature of the economy. Most of the newly created income is transferred to the upper class that has a lower propensity to consume and consequently the consumption levels remain restricted. Keynesian theory revolves around the idea that investment is the most potent factor in the determination of the level of employment in a community (Mathur, 1983).

This has been discussed in detail by Azid (1989), Azid and Aslam (1989), Khan (1968) and Ahmad (1969) with a comparison with the Islamic system. Ahmad (1969) discussed the effect of interest in the peripheral of Keynes and explained how interest, by acting adversely on the marginal efficiency of capital prevents investment, and, thus, full employment, asserting thereby that investment is interest elastic. He also explained that one of the major causes of underemployment-inflation is the inclusion of a multiple of the rate of interest in the cost at each stage of production that increases price level. Khan (1968) explained other Islamic injunctions beside the rate of interest and showed that in the Islamic economy the autonomous demand will be higher thus the employment level will be higher than in a secular economy. Azid (1989) discussed this matter in the framework of different theories of employment (Keynesian, Say's Law and wage fund theory) and concluded that from every aspect the level of employment will be higher than in a secular economy.

Siddiqi (1986) approaches to the same issue from another perspective by explaining that if ADG is not going to be activated then this is '*fard kifaya*' on the state or on society to increase the aggregate demand of the economy. (*A fard kifaya* is a duty like the duty of prayer and fasting, with difference that it is not addressed to individual persons but to the community. The law-giver wants the duty done, irrespective of who does it. It may not be performed by an individual due to one or more of the following circumstances, e.g. lack of information, market failure, lack of resources, etc.). Siddiqi (1986) further states that the fulfilment of basic needs is also a *fard kifaya* even though the goods and services involved are provided by the market mechanism. Azid (1989) stated that it is *fard kifaya* of the Islamic society or state to provide employment to the unemployed when individuals are not performing this duty due to certain causes or the market mechanism is not working efficiently and fails to achieve the goals of a desired level of employment. So it is the responsibility of the state to generate the autonomous demand. Faridi (1981) explains that in an Islamic economy we have three significant sectors instead of two as in the secular economy. According to him, "however, an Islamic economy may be characterized as a three sector economy. It will comprise of the private

sector motivated by profit, the private sector free of profit motive (the voluntary sector) and the public sector. Alternatively we may describe these three institutions as the market, voluntary economic institutions, and government". He further defines the object and conduct of the voluntary sector.

Azid (1989) has also given more importance to the voluntary sector in the Islamic state. The voluntary sector is the major source for generating autonomous demand. So the economy has three powerful sectors, i.e., private, public and voluntary. The motive of the voluntary sector is not making profit. The contribution of this sector in generating the autonomous demand is very significant, i.e., *zakah*, *ushar*, *khumas*, *sadaqa*.

The transfer of wealth from a higher income group to a lower income group is the main reason for the incremental change in the aggregate demand (Azid and Ahmad, 1985; Matwally, 1981; Azid, 1989). The utility function of a Muslim is also dependent on spending in the way of Allah (swt) (Zarqa, 1980; Khan, 1981; Azid and Ahmad, 1985; Azid 1989). Owing to this phenomenon the aggregate demand will increase as a whole in the economy. If the private sector and voluntary sector are not generating enough demand, then it is the duty of the state to generate the autonomous demand that is compatible with the required employment level (Tabakoglu, 1983; Azid, 1989). According to Imam Abu Hanifa, the following part of the total state revenue from *zakah*, 20% of the booty, and 20% of the minerals and treasure should be set aside for the needy and the poor people. Imam Shafi added beside the first two items the 20% of *fai* should be spent exclusively on the poor. In this way the consumption that is not significantly participating in the generation of autonomous demand in the secular economy is effective as autonomous investment in the Islamic economy.

### **1.12 Determination of Wages and Labor Market**

In the system of Islam no one can be denied the fixation of wages before commencing work. It is clear that in the Islamic economy the flexible wage system (where the market mechanism is working) is not prevalent. The system of wages in an Islamic economy is the fix wage system (where wages are fixed on the basis of some pre-decided criterion instead of the equilibrium of the demand and supply).

Wage is the hire of labor as *ajir al-has* or *ajir al-mushtarak* (Tabakoglu, 1983). A pre-decided wage is a necessary condition (among others Khan, 1975; Tabakoglu, 1983; Mawdudi, 1969; Qutub, 1968). The work, wage and duration must be pre-determined and the nature of the work must be legal (Majalla-i-Ahkam-Adliya, article 459). In an Islamic society there is a constant principle for the determination of wages that is not based on supply and demand. The contract shall be such that it will fit the bill of the basic needs of the workers. This is a constant guide for the solution of this problem. The employer shall accept the responsibility for feeding and clothing the workers or give as much in the form of wages as will meet his basic requirements (Khan, 1975).

Wages must be fixed differently for different professions taking into consideration the risk to life and health. Differential wage policy is allowed for different jobs. Islam appreciates skill and experience. Wages may be varied from place to place, and dependent on economic and climatic conditions of the locality and society, but the

difference should not be immeasurably great or so great as to be unbridgeable (Qureshi, 1959; Khan, 1975; Mawdudi, 1969; Tabakoglu, 1983).

Chapra (1970) has a different view about the fixation of wage rate and he proposed a mixed system and left the actual wages to be determined between these two limits: “By the interaction of supply and demand, and the extent of economic growth, the level of moral consciousness in the Muslim society and the extent to which the state plays its legitimate role”. Khan (1980) suggests another model in which the wage rate is linked with the profit of the firm and distinguished between need-based minimum wages and ideal wages that would bridge the gulf between the living condition of the employers and employees. Wages should be according to their prevalence in the city and their personal conditions and needs (Khan, 1975). Wage rate should be linked to the average standard of living in the society (Yusuffuddin, 1950; Hamidullah, 1936). There should be quick payment after completion of the work or according to the contract (Tabakoglu, 1983; Qureshi, 1959; Khan, 1975; Mawdudi, 1969; Majalla art.: 450).

*Mujtahids* decided that even a contract that is arranged between worker and employer is not valid; the worker must not be deprived of the wage that is given to a worker who performs a similar job (Tabakoglu, 1983; Khan, 1975).

With more circulation of capital the efficiency of the workers will increase then the wages will automatically increase, *i.e.* marginal productivity of labor will increase (Azid and Ahmad, 1989; Khan, 1968; Azid 1989). Khan (1975) is in favor of unemployment allowance. Mawdudi (1969), Tabakoglu (1983), Qureshi (1959) and Khan (1975) are in favor of profit sharing between the employer and employee and said that the laborers become interested in the growth of the industry in which they are employed. In the Islamic system economic incentive is not only permitted but also an incentive for the economic activities.

However, this permission is under the rules and regulation of Islamic Shari’ah. In the Islamic system if someone will invest from the unpaid wages of a worker, the worker has to claim that investment.

### **1.13. Gender and Work in Islamic Society**

A substantial literature is not available which offers an Islamic perspective of social choice and well being in the context of gender division of labor. Hassan (1994) concluded that Islam allows women to be engaged in economic activities including operating their own businesses. Syed and Ali (2005) gave the example of Khadija, wife of Prophet (pbuh) was an eminent businessperson in Ancient Arabia. Hussain (1987) stated that women’s free choice to participate in economic activities or concentrate on their domestic duties is in stark contrast to men’s position in Islam, for whom economic activities are not a matter of choice but religious responsibility. Ali (2000) has the idea that a narrow interpretation of female modesty in Islam has served to literally remove women from the public space including paid employment. Syed (2006) discussed the matter within the periphery of Sen’s capability approach and adaptive preferences. Syed suggested that we have to include the eternal well being in addition to the material well being in the model of capability. He further added that Islam emphasizes the roles of

women and men in the maintenance and operation of family as a core unit of human society and within a liberal and dynamic perspective of Islamic faith, women and men are duty bound to seek education, and enjoy equal access to economic resources. According to Syed that in an Islamic society, it might be (deemed) optimal for families to specialize in different forms of production and the resulting inequalities in labor force participation might be the result of this optimal decision.

This section presents the outline of the labor market in an Islamic framework. It is quite clear that in this system exploitation of any type is not allowed. On the contrary, it permits an environment of justice and equity, develops a harmony among different factors of production, e.g. labor and capital. It is also observed from the above-mentioned literature that the determination of wages is not a mechanism of market. Instead of this, the wage rate should be pre-decided and a minimum level should be that which will fulfill the basic needs of the workers and his family. However, this is not the end of the episode of wage determination in this system. A share in the profit is also supported by a number of scholars, which is also observed from Qur'anic verses and sayings of the Prophet (pbuh).

## Section II

Most of the studies presented in Section I give us a deep insight towards the basic concepts of the labor market and its general operations in the Islamic framework. However, none of them provides a fully satisfactory theoretical or empirical model compatible to the existing economies of the real world. As all we aware that a number of factors/variables have a significant influence on the different corners of the labor market, for example, changes in taste, shift in terms of trade and relative oil prices, all requires the major allocation of labor that can lead to unemployment if labor mobility is costly and time-consuming. A number of models for the financial market have been developed in the current literature of Islamic Economics but even not a single attempt compatible with the real world for labor market came across in the literature. It is hard to see any effort in this dimension considering the basic norms of Islamic economics. Therefore, one has to explore that what is the *Maqsad of Shri'ah* regarding the current issues of the labor market.

Most of the studies/discourse if not exaggerated related to the above mentioned area are based on the theoretical development (which is also not very much significant) while lacking the empirical analysis. The practical issues remain untouched. All of the efforts which we have cited in the section I have explained the normative aspects of the Islamic labor market and emphasizing on the moral dimensions of the labor market than positive one. It seems that deliberately Muslim economists are not trying to involve themselves in the technical and complex issues of the current labor market and hesitant to touch the positive aspects of the labor market such as wage efficiency theory, low power incentive or high power incentive, etc. Moreover, each and every attempt tries to create a utopia but never considers the ground realities.

Islamic Economists could not able to touch those models and theoretical developments which have been developed during the last three decades in the literature. For example a number of models in the mainstream economics have been developed, i.e., search

models, new classical models, aggregate real business cycle models with fluctuations in employment driven by intertemporal substitution, models of sectoral shifts and unemployment efficiency-wage models, cyclical unemployment fluctuation and persistent high unemployment, insider-outsider models of wage and employment determination. However, Islamic economists did not try to discuss the utility/disutility of these models in the Islamic framework. Almost all of the Muslim countries are underdeveloped, if theoretically we want to develop a model for the labor market of an Islamic economy then we also have to consider this dimension. Without any hesitation we can say that we can use the concepts of conventional economics as an analytical tools and discard their philosophical bearings (Hasan, 2005).

The relationship between inflation and unemployment is as an important issue of the Keynesian and post Keynesian labor market, however, still this issue does not able to attract the Islamic Economists. Furthermore, it is a dire need to explore either Muslim Economists are accepting the issue of inflation or not and also its effects on the state of unemployment. Nonetheless, this is not a proper reply that inflation is a man made problem as explained by Obaidullah (2005: 28) "...divine rule cannot be changed man made problems like inflation. What is needed is an effective check on inflation through national macro-economic policies and not accept inflation as given." This does not seem a realistic approach because approximately every Islamic state observes the same economic issues as observing by the rest of the world. Beside this we have to analyze the effect of aggregate demand on the labor market and also to suggest that what policies should be formulated by the Islamic State

What about the competitive or non-competitive market? What is the Shari'ah argument about the non-competitive labor market. Competitive or non-competitive did not discuss by any one of them. Khan (1990) discussed in a different way and argued that automatically labor market will be clear out. What about the monoposony power or monopoly power in the labor market? Another interesting area is related to the pension of the workers and how Islamic economics deals with this variable. A real question is that either Muslim economists are in favor of market wage rate or not. Either market wage rate is a just wage or not. Or there should be some benevolence (market wage plus). Union is a reality how it will be handled. Moreover, what about the bargain power of the union/collective actions. Either collective action is according to Shari'ah or not. If not then what is the alternative given by Shari'ah and what are the tools to apply for the corrective measures and what are the preventive measures. As we have seen in the conventional economics that two new developments related to the efficiency wage models (Katz, 1986; Stiglitz 1986; Yellen, 1984) and insider-outsider models (Solow 1985; Lindbeck and Snower 1986, 1988) explain the functions of the labor market. Efficiencies wage theories and insider-outsider model are providing complementary explanations for the existence of involuntary unemployment. However, what is the code of ethics in the Islamic framework about the involuntary employment. There is a need to discuss that situation when firms may find it in their interest to pay wages in excess of market clearing. An increase in the unemployment rate may not be self correcting if each firm's desired wage policies depend much strongly on its wage relative to average wages than on the unemployment rate. Also we have to discuss about the labor demand as well ethics and wage cut. How the issues related to wages of the trained and untrained labor could be solved. An other important issue is that identical workers are

paid differently depending on their firm (or industry) affiliation. Khan (1991) emphasizing on perfect market which is not possible for the current environment. Because wage differentials are positively related to measures of industry profitability, monopoly power, capital intensity and average education (Katz 1989). One cannot see any opinion of Shari'ah scholars about the issue of sticky wages. Why unemployed workers are unwillingly or unable to bid down the wage of seemingly comparable employed workers and gain jobs. Is there is a need of any bond or it is correct or not in the present scenario? What about underbidding? Underbidding is an other area where we have to analyze its position in the periphery of Shariah. In the commodity trade may be it is permitted but what about the labor market where due to underbidding the involuntary unemployment is declining. This is the duty of the Muslim scholars to explain the moral policy regarding this problem. Either in the Islamic Economics non-marketing clearing phenomenon has some room or not. What about the over time or new entrant. Mobility of the workers coincidence recession. What will be the role of the state in this regard. Rent sharing is possible or not. According to Katz (1989 : 515), "Rent sharing would also arise if firms must pay efficiency wages for effort elicitation, selection, or turnover reasons in some job categories and then face internal equity constraints that lead them to pay high wages even in job categories where efficiency wage considerations are not important". It is also observed that long-term employed exert little pressure on wage setting because their skill depreciate, they become discouraged and search less intensely, or employer perceive them as undesirable workers. What is the duty of the employer and how we will be able to calculate the social welfare/cost (Layard and Nicke 1986). Culture which is not conflicting with the *Shari'ah* has also effects on the labor, those are implicit in the behavior of labor market.

Another issue is related to the development of the human resources which is proved to be a cornerstone of the labor market. However, Islamic economics has not given too much emphasis on this aspect of the labor market whereas human resources are too much important and discussed as *Ibad ur Rehman* in the Islamic literature (Biraima, 1991).

Simultaneously, one cannot see any significant effort in the areas of child labor and female labor force ( However, some efforts can be quoted, for example, Hassan, 1994; Hussain, 1987; Syed and Ali, 2005; Syed, 2006; Ali, 2000). What is the opinion of jurisprudence about these two types of labor force. Literature of sociological economics emphasized more on the sense of identity of the worker within an organization and his attachment to an organization is critical to well functioning enterprise (Akerlof and Kramtoz, 2005; Granovetter 2005). Azid and Asutay, (2007) discussed the issue in a short under the umbrella of Islam and concluded that social categories play an important and remarkable role, utility depends on social identity and internalize norms guide their behavior.

Is there any chance of adverse selection and moral hazard in the labor market in the framework of Islam? If we are following the market behavior then how we will be able to solve the problem of moral hazards and adverse selection? As we can see cooperation and harassment are two major components in the insider and outsider model. What is the morality of this aspect and how Islam deals with these issues?

Still job security is a barren area. How Islam guided us regarding this dimension, how these are related to that situation when employees are not working properly or employer does not deal in an ethical way. Is it possible for Muslim economists to develop the model which compliance the shari'ah rules?

As we know that major allocative disturbances may arise from technological changes, changes in international competition, or changes in supply of intermediate inputs (Azid and Chaudhry 2005; Azid *et al.* 2008). Is there is a need to discuss and cover these issues or not?

Islamic economists also did not try to encompass the theory of contract in the context of modern state. What type of contract Islamic firm should have with its employees. How it will be fulfilled. Is it possible for the firm to pay above the contract on the cost of unemployed labor force? What type of implicit contract they have? Implicit and explicit contract and their impact should be discussed. What usually highlighted in their classification and categories? As discussed by Zaman (1991) that bonus is not appropriate from the Shari'ah point of view then what method should be adopted for giving the incentive to the workers. Islamic Economists openly declared there is no room for dishonesty and also completely ignored the concept of self interest. After all self interest is innate and state of *Mushaha* and *Mughabana* are always persist with the state of *Mukarrama*. Firms are also have training and as well as turnover cost. Turnover may be controlled through the profit sharing system.

Islamic Economists are confused with labor and leisure. Khan (1983) has explained leisure and income in the context of consumption. However, we have to explain in terms of the current requirement of the world. How utility will be maximized? Shall a worker or employer are irrational to maximize their utilities by benevolence behavior? From the Qur'anic verses it is stated that he is so humble and always efficient. He will supply more, this is not the time hours, actually it is the money value. Demand is also in terms of cost and not in terms of hours. The entrepreneur has also his own self interest and not an irrational person. Islamic rationality does not mean that both are not human being.

## Summary

The discussion in the previous section indicates that the labor market in Islam is governed by the Islamic laws of fairness, justice and reward that is equivalent to the job done. It is a function of supply and demand. The rule is what the Prophet (pbuh) said that labor should be paid before the sweat of the laborer dries out, *i.e.* immediately. Moreover it emphasizes the relationship between the employee and the employer. Both should make sure that they cater and pay due attention to the highest authority; that is Allah who is watching over all of us. It is not a hundred percent based on market phenomenon. The Islamic system is a value based system. The review of literature guides us that there is a need for time to develop the new theoretical and empirical model for the Islamic labor market, which should be different from the neo-classical and Keynesian.

However a higher degree thrust is needed in the literature which will give a depth in the positive side of the labor market in the Islamic framework.



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## تقييم حالة البحث في اقتصاديات العمل في الإطار الإسلامي

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**المستخلص:** تقوم هذه الورقة بمراجعة الأدبيات المتعلقة بمفهوم وطبيعة العمل من منظور إسلامي والتي تم إنجازها خلال الثلاثين سنة الماضية. هذه المراجعة ترشدنا إلى أن سوق العمل في الإسلام محكوم بقوانين الإسلام بتحقيق العدل والمساواة والمقابل المجزي الذي يدفع للعامل حسب العمل الذي يقوم به. لقد لاحظت الدراسة كذلك أن بعض النظريات السائدة مثل نظرية قيمة العمل طورها فقهاء المسلمين الأوائل، كما لاحظت الدراسة أن الغالب في تلك الدراسات هو الطابع المعياري (القيمي) المتعلق بسوق العمل في حين أن محاولات قليلة اهتمت بالجانب الإيجابي في الموضوع.

إن هذه المراجعة أظهرت أن هناك حاجة لتطوير نماذج نظرية وميدانية لسوق العمل الإسلامي والتي يجب أن تكون مغايرة لما هو سائد في السوق التقليدي. كما تقترح الورقة أن يكون تطوير تلك النماذج مواكباً لمتطلبات العصر.