



Labor market in the environment of *Tawhidi* methodology

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Abstract

Purpose – In the Islamic system, the activity and the performance of all the economic, social, political and religious agents are under the guidance of knowledge given by Allah (SWT). There are some established principles related to the human behavior which are valid in each and every aspect of the universal set of Islamic system and thus valid for all the economic markets, such as labor, goods and money markets. This paper discussed the labor market in the periphery of *Tawhidi* methodology. The concept of labor in Islam emanates from a concept of intrinsic value as the real worth of a produced thing as well as factor of production. The authors have taken the *Quranic* precept that says Allah has put *fitra* in all things during creation and this assumes the primordial value of being in cognitive forms. Hence, if a good is discovered, produced and labor is expended in its production and transaction, there is always that primordial intrinsic value that has in the first place made all the subsequent processes possible. This primordial value must always be discounted from the price of factors and goods as it cannot be claimed. That is why, the *Quran* says that Allah has created the universe in the midst of plenty, not scarcity. The paper aims to discuss these issues.

Design/methodology/approach – Literature survey approach was applied in this paper.

Findings – The input of *fitra* is like a value variable (imponderable) linked with two stages of knowledge production – intrinsic knowledge that is innate in exchangeable knowledge flows that are evolved by interactions, say among cooperating agents of the markets and between agents and the observation of variables trends (empiricism). Market exchange is of the classical nature but with this value element in the process of exchange describing not steady-state equilibrium point but evolutionary equilibrium as a result of the knowledge caused and regenerated by interactions, thus affecting the demand and supply schedules through the inhering process of interactions among participants (cooperative ones). The authors can draw an evolutionary form of moving cobweb equilibria that are simply expectational in nature; they are not static except for the very instantaneous case of non-learning.

Research limitations/implications – This is the first attempt. There is a need to conduct more research in this topic.

Practical implications – This paper has practical implication for the policy makers in the environment of moral and ethical economy.

Originality/value – This is an original contribution and is a first attempt in this area.

Keywords Islam, Market, Labor, Moral, *Tawhidi*

Paper type Conceptual paper



When first conference on Islamic economics was held in Mecca in 1976, a quite number of Muslim and conventional economists explained the different ethos, norms and dimensions of Islamic economics. They tried to discuss the very subject in the context of modern economic world. They also presented the comparison and the relationship between the conventional and Islamic economics. The governments of quite a number of Muslim states put a significant effort to apply some instruments of the proposed model of Islamic economics. This process is known as the Islamization of the economy. With Islamization many Muslim states have liberalized themselves from interest based financial system. What they claimed that the transaction costs decreased, and the interest free system contributed to increase profit margin, in special banking sector. Islamization is explained by interest free financial system, implementation of *Zakah* as a fiscal instrument, and justice in the economy. Some studies as in Iqbal and Molyneux (2005), Siddiqui (1988), Ahmed (2004) and Chapra (1988) consider that, the Islamization of economy can positively influence the productivity and efficiency. However, some critics opposed that Islamic economics itself as a full fledged area of study and argued that the proposed model of Islamic economics is not valid in the present age of advanced knowledge based economy[1]. Among them Kuran (2004a, b, c, d, 2005, 2008, 2009a, b, c, d, 2010) is one of the leading representatives of contemporary criticism of conventional Islamic economists. His arguments significantly attract the conventional and Muslim economists. The first critique is associated with the idea that many norms of Islamic economics like those against risk taking, speculation, and price cutting, are unsuited to a large modern economy. The second expresses the idea that mainstream Islamic economics is unfaithful to the original Islamic sources, and a deviation from its actual message. In this manuscript we analyze the argument of Kuran regarding the determination of wages in the Islamic economy in the periphery of that specific approach which was developed by Choudhury (1992, 1993, 1995a, b, c). However, for the response of Kuran's critique we have to explain the whole labor market under the umbrella of Choudhury's methodology. The paper is organized as follows: Section I presents related criticism of Kuran about the determination of wages and also presents some basic points of the methodology of Choudhury. In Section II, we discuss the structure of labor market under the umbrella of *Tawhidi* methodology. Finally, we make our concluding remarks in the last section.

Section I

Kuran found it troublesome that Islamic economics has made no perceptible progress in developing a set of behavioral (Alamasi, 2000, p. 78) norms suited to modern economics. According to him that all proponents of the Islamic doctrine are united in the belief that behavioral norms are at the centre (Alamasi, 2000, p. 80). He also added that Islamic economists are tend to overrate the social virtues of altruism and underrate of selfishness (Alamasi, 2000, p. 78). He emphasized that Muslim economists are neglecting the large number problem. He further commented that the Islamic norms are ambiguous in many of the situations to which they are expected to apply. In these situations, Muslim economists constitute a rather poor substitute for the detailed laws and rules that have evolved in the course of economic development in societies we observe today (Alamasi, 2000, p. 86). He argued that such a proposed model does not exist for any real economy. In such an imagined economy, where an individual will always be capable of abiding by the norms which requires him to refrain from reducing

society's welfare, he will be judged not by the consequences of his actions but by his intent. Such a behavior can even lead to consequences which are opposite of the good intention behind it[2]. In his opinion that the set of injunctions in the Islamic system is not dynamic, but static: it is eternally applicable, without revision, to all societies (p. 176).

In this present study, however, we will try to discuss Kuran's criticism on the predetermination of wages and not the rate of interest in the system of Islam. He proceeds to illustrate an aspect of internal inconsistency in the literature – regarding the issue of banning interest – as he contrasts this position with that prevalent in the literature on the issue of “pre-determined wages, to which (only) few Islamic economists object” (p. 153).

Consider a firm operating in an uncertain environment. If this firm pays its employees according to predetermined scale, all risks are borne by the shareholders: while workers would earn the same return on their efforts regardless of the firm's revenue, shareholders could either make or lose money. Clearly, then, it would be inconsistent to ban interest without also banning fixed wages. The very logic used to justify *Mudhrabah* would also require employees to share in the firms' risk (p. 153). According to him this is a twin principles of justice.

More profound writings on Islamic economics accelerated in the following period until the early 1970s. An example can be found in an article by M.A. Choudhury in which he attempted to deduct a “general methodology of Islamic economics which is in some way different from the strictly secular approach to the study of economic analysis and theory” (Choudhury, 1994b, p. 17).

Choudhury – who written extensively from within mainstream Islamic economics (Choudhury, 1994a, b; Choudhury, 1986) – is equally worried about attempts to relax some of the pillars of the paradigm. He criticized what he sensed as an over-dependence of Islamic economics on conventional economics. As such, he would ask for a switch of emphasis from “policy issues” concerned primarily with monetary/fiscal (or even development) studies, to building an “internally consistent” economic theory based on the underpinnings of the Islamic paradigm. Such a model should, according to Choudhury, produce an “ethically oriented economics” – which is not necessarily “logical” under the secular hedonistic world-view of neo-classical economics. Choudhury believes that for Islamic economics to become truly a universal and human discipline, it must go through this route, i.e. “delineate and structure a logical, internally consistent, ethically oriented economics”. In fact Choudhury also declared that the main concern of Islamic economics should be the “presentation of Islamic economics as a special case of social economics, and extending the methodologies of mainstream economics” (p. XIII). As to Choudhury, few fundamentals of Islamic economics are believed to suffice in developing a full-fledged Islamic economic theory. These are mainly restricted to the replacement of *riba* by profit sharing, the introduction of *zakat* for redistributive purpose and abolition of *israf* (prodigality) and wasteful consumption (Choudhury, 1986, p. 204)[3].

In the Islamic system, the activity and the performance of all the economic, social, political and religious agents are under the guidance of knowledge given by Allah (SWT). There are some established principles related to the human behavior which are valid in each and every aspect of the universal set of Islamic system and thus valid for

all the economic markets, such as labor, goods and money markets. The most prominent are as follows:

- righteousness[4];
- Ihsaan[5];
- avoiding harm (damage/loss/difficulty)[6]; and
- values relating to judicious use of resources.

However, the knowledge-formation chain which is developed by Choudhury is summarized as below:

- *Tawhid* (topological premise of stock of knowledge) is exogenous determinant of all knowledge flows and their induced forms at every stage of the entire process.
- The second stage is the initial process with primal knowledge flows denoting the core of *Shariah*. The derivation of knowledge from *Tawhid* to this core is the role of the essential *Ahadith (Qudsi)*.
- The third stage denotes a circular continuity from first stage by means of the intervening discourse (*Ijtihad*) followed by integration (consensus = *Ijma*) in the organization of world-system. The derivation is functionally guided by *Sunnah* and an evolving form of *Shariah* in accordance with *Ijtihad*.
- The fourth stage denotes the continuity and evolutionary process of knowledge flows forming more of the knowledge-induced world-system. This is the process of *Khalq-in-Jadid* (new creation) in *Quran*.
- Fifth stage is the cumulative formation of ALL knowledge of world-systems that knowingly or unknowingly interact (as the *Quran* says, they come knowingly or unknowingly) is the recreation of the stock of *Al-Ilm* in *Akhira* (the scrolls of *illihin* and *Sijjin*). Thus, in the super cardinal non-dimensional sense of topological meaning, $A = T$, substantively. The *Quranic* world-system is thus always open in the small scale but closed only in the “very large”.

After discussing the knowledge-formation chain we are in position to reply the following questions which are generally we have in the Islamic economics regarding to the labor and its market in the periphery of *Tawhidi* system:

- What is the concept of labor in Islam and its effect on conventional labor market?
- Is market invisible hand determined the wages?
- Is market forces work differently than the conventional system?
- Is Islamic and conventional markets are related to each other?

Section II

2.1 Concept of labor in Islam and its effect on conventional labor market

The teaching of *Quran* and *Sunnah* guides us that the labor market in Islam is governed by the Islamic laws of *Shar'iah*[7], fairness[8], justice[9] and reward[10] 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 labor dries out, i.e. immediately. Al-Ghazali's idea of the proper functioning of the markets requires that it should be free from any types of defects, evils and exploitations and stays within

the periphery of *Shari'ah* (Ghazanfar and Islahi, 1997, p. 22). He further added, that Islamic market is not so much mechanized and not value-free. It is the objective of the *Shari'ah* that economic activities should reflect Islamic values, the participants' behavior should encompass benevolence (*Ihsan*) as well – which means:

[...] doing something extra that benefits a person engaged in transactions above and beyond the material benefits, though that extra is not an obligation; it is merely an act of generosity (Ghazanfar and Islahi, 1997, p. 22)[11].

Moreover, it emphasis 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. However, if we introduce the Islamic dimension which assumes that workers as well as their employers, the producers may care for each other and for others in the society including other workers, other producers, consumers, etc. the labor services cannot be treated as a saleable material commodity. In pricing the human factor of production, one must follow the general normative principles of justice, brotherhood, scarcity and that of equity in distribution. Islam offers a very reasonable solution of wage problem which is based on justice and fairness and protects the interests of both the employer and the employee based on the concept of brotherhood. Wages, according to Islam, are to be determined in equitable manner, without harming the interests of any party, keeping in view the following Islamic teachings from *Qur'an* and *Hadith*[12]. Thus, the employer and the employee should treat one another as brothers and not as master and servant. They should not wrong each other and show justice and kindness in their relationship. The employer should not forget that contribution of the labor in his produce is considerable. He should, therefore, pay reasonable wages to an employee to enable him to enjoy a reasonably decent living. Otherwise, injustice to working class would lead to discontentment, frustration, agitation and strikes.

The concept of labor in Islam emanates from a concept of intrinsic value as the real worth of a produced thing as well as factor of production. We have taken the *Quranic* precept that says Allah has put *fitra* in all things during creation and this assumes the primordial value of being in cognitive forms. Hence, if a good is discovered, produced and labor is expended in its production and transaction, there is always that primordial intrinsic value that has in the first place made all the subsequent processes possible. This primordial value must always be discounted from the price of factors and goods as it cannot be claimed. That is why the *Quran* says that Allah has created the universe in the midst of plenty, not scarcity.

Labor is thereby a service expended in the realization of the true worth of an exchangeable, such as factor, through the medium of interactions between the suitability of the goods and services in exchange and the ethical process that conjoint interaction of market with institutions (Islamic law and the embryonic *Shura* in everything), brings about the guidance for appropriate service, production and pricing of both the factor and the goods. Market process by itself is not primal here as this process is inevitably made to interact and be "guided" through the interactive process of institutions and markets within the complexity in Islamic law. Now underlying the effort of labor and its quantitative determination and pricing is the market interaction between goods, other factors, technology, institution and the effort of labor.

The production function is endogenously determined by the presence of knowledge among the variables in it, gained through the interactions, integration and creative evolution to new knowledge flowing in the midst of the knowledge-production that incessantly proceeds in all exchange in circular causation and continuity. In the derived demand, labor and other factors are found to exist in perpetual complementarity rather than in marginal substitution according to the unity of knowledge as reflected in and by the knowledge-inducing process. Such complementary relations are fundamentally associated with the source of knowledge (*Tawhid*) methodology. It is substantive. It may be noted how labor relations in industrial organization is substantively changed in the midst of such institutional presence with market-institution complementarity with knowledge in this system via interactions and discourse, guidance and transformation.

From the teachings of Islam it has been observed that its economic system has two important components: participation and cooperation. Thus, in the organizational set up of an Islamic firm, participation and cooperation of every economic agent is required for the best utilization of the resources and may be the optimal strategy. Islam encourages the best utilization of the resources but not at the cost of society's benefit.

There should be cooperation in between labor and capital (capital may be defined in terms of human, social and cultural assets) for the solution of social problems. As a result there should be less strikes, creating a healthy domestic, social and moral environment.

Furthermore, Islam does not refute the importance of capital as a factor of production, but also considers labor as a basic source of value. The Islamic economic system does not separate both factors of production from each other and presents the solution of the conflict between labor and capital. It is observed from the following *Qura'nic*[13] verse that everything produced by God 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 God for the benefit of humankind.

Now from the derived nature of a simulative treatment of production menu, the labor function is obtained and its pricing determined (see the following sub-section) by complementarity in relation to other variables circularly in terms of recursive knowledge evolution. By considering labor quantitatively, organizationally and in terms of factor and product pricing with the perceived notions in neoclassical economics or labor relations, it can be seen that, production menu changes from labor-capital conflict and unionism to co-determination of the entire host of production menu. The essence of ownership of the production assets by both capital and labor through the participatory nature of Islamic industrial organization (joint ventures, *mudarabah*, *musharakah*, etc.) and the nature of social goods and service that must be delivered, completely replaces conflict by complementarity. This principle is a direct consequence of unification in the productive sphere in accordance with the unity and unification (processual) of knowledge.

Our understanding of changes in pricing from the relative marginalist formulas of neoclassical economics to complementary evolution of trajectories (movement through space) in labor and other factors (capital) with only moving equilibrium in them but no optimality and no substitution. Thus, briefly, labor is a service whose quantity is determined in accordance with the derived demand in a knowledge-induced production menu caused by interactions, integration and evolutionary processes of learning. These are facts derived from a study of the *Quran* with respect to epistemological

meaning relating to *Tawhid* and the createdness of the world-system. The value of labor both in supply and pricing is determined in the midst of the above-mentioned process (or the embryonic *Shuratic* process) in view of the primordial or intrinsic value that cannot be claimed. We go to the next questions in this regard.

2.2 Market invisible hand and determination of wages

The discussion of Section I assumed that the free market forces of supply and demand are not against the Islamic principles. However, the answer is not as simple as it seems to be. Clearly the recognition of the intrinsic theory of value and the need for its discounting (not to be understood as discounting in the intertemporal sense) in pricing of factors and goods being through the interaction, integration and evolution process that is crystallized in and through market-institution-social analysis, the nature of market changes from being governed by the invisible hand principle to a visible interactive process guiding the market as institution towards ethical realization.

The market is thus part of a great human common (human ecology) in which the role of Islamic Law in transforming preferences, baskets, prices and allocations, are ethically induced. In the invisible hand principle none of these can be visible processes. Then either ethical values and morality are wiped out of the market process or the exogenous goodwill of consumers and producers may determine the consequentialist nature of markets. But there is no predictive ethical behavior in the invisible hand principle of market exchange.

Yusuf (1392, p. 129) says: "The ruler is responsible for the welfare of the people and must do everything that he considers good for them". He quotes a companion of the Prophet, Abu Musa al-Ash'ari, "The best of men in authority are those under whom people prosper and worst are those under whom people encounter hardship" (Yusuf, 1392, p. 16). 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 and the provision of the basic necessities[14]. Because liberty and mutual consent are essential in contracts, the parties cannot force each other to accept their conditions.

2.3 Demand, supply and wages

In the interactive, integrative and evolutionary framework of knowledge-induced variables, prices are not determined exactly by the classical market equilibrium process. Instead, we now have intact the concept of exchange, but the equilibrium process is a punctuated one and subject to change, shifts and displacement in accordance to the dynamic nature of learning and evolution of knowledge (here other contingencies are included). The input of *fitra* is like a value variable (imponderable) linked with two stages of knowledge production – intrinsic knowledge that is innate in exchangeable knowledge flows that are evolved by interactions, say among cooperating agents of the markets and between agents and the observation of variables trends (empiricism). Market exchange is of the classical nature but with this value element in the process of exchange describing not steady-state equilibrium point but evolutionary equilibrium as a result of the knowledge caused and regenerated by interactions, thus affecting the demand and supply schedules through the inhering process of interactions among participants (cooperative ones). We can draw an evolutionary form of moving cobweb equilibria that are simply expectational in nature; they are not static except for the very instantaneous case

of non-learning. So one may think of perpetually shifting cobweb models, where no a priori assumption of equilibrium is necessary.

Many *ahadith* will testify this fact from the Prophet Muhammad's (PBUH) comments on price regulation during the inflationary conditions of Madinah markets. Ghazzali's understanding of pricing is not in terms of market demand and supply but in terms of the act of God does also convey a different meaning here. Ibn Taimiyyah's social guidance institution of *Al-Hisbah* is a case in point. In recent times such punctuated moving equilibrium as in the case of perpetually learning biological phenomenon, have been considered in the literature (Taymiya, 1383 AH).

According to Abu Saeed Khudri "The Holy Prophet (PBUH) had interdicted the employment of a laborer without prior fixation of the rate of wages" (Baihaqi).

In the system of Islamic economics no one can be denied the fixation of wages before commencing work. It is clear that in the Islamic economy the fix-cum-flexible wage system works and contrary to that system, where 100 percent market mechanism works does not prevail. The system of wages in an Islamic economy is the fix-cum-flexible wage system (where wages are fixed on the basis of some pre-decided criterion besides the equilibrium of the demand and supply).

In Islamic economic system labor has been considered as a service carrying a market price and therefore in normal condition it will be left to the free play of market forces to determine the wage. Although the question of paying just and fair wages has been frequently discussed in the Islamic economic thought. For example, Al Ghazali says:

If people confine to subsistence level (*sadd al ramaq*) and become very feeble, deaths will increase, all work and industry will come to halt, and the society will be ruined. Further, religion will be destroyed, as the worldly life is the preparation for the Hereafter.

Thus, Al-Ghazali insists that subsistence living could not be accepted as the norm for a society. He does suggest, however, that some may make this choice of their own volition.

However, we treat here pricing in a framework of market-institutional-technologically driven equilibrium under ethicizing guidance of the market process. The latter is gained through the instilling of systemic unity (complementarity) among factors and goods in accordance with Islamic law. This inextricably pervasive and epistemologically ingrained principle of universal unity is derived from the essence of pairedness among possibilities in the *Quran*. *Shari'ah* permissible things do not displace each other. Good and bad are replaced (not substituted in the neoclassical sense). Bad and bad (worse) are not substitutable. Instead, we treat *Halal*, *Haram* and *Mubah*. In each of these allocative cases the essence of learning is central. Thus, smooth optimal productive surfaces and productive isoquants for relative goods and factor pricing cease to exist.

Status of wages in the Islamic economic system is contrary to conventional system, i.e. lawful or unlawful. Wages are lawful when the work to be done is lawful. But when the work to be done is unlawful, then its wages would be unlawful. For example, if one is employed to commit theft or murder, wages received for the work shall be unlawful because the work is *ab initio* unlawful. Similarly wages are unlawful when the work to be done is one's religious or social obligation (*fardh*), for example, wages cannot be received for offering prayer or visiting sick. But wages for medically treating a person are lawful. Work which is done to please Allah, e.g. recitation of Holy *Qur'an* or

teaching *Qur'an* to children, is not entitled for wages. However, a person engaged in the profession of teaching *Qur'an* as a source of his livelihood can charge wages for teaching the *Qur'an*. According to opinion of jurists, wages can be charged for washing dead, burying dead, digging graves, leading *tarawiah* (night prayer in the month of fasting) prayers and for guiding the pilgrims by those who are engaged in such professions. Wages for participation in *Jihad* or wages for preaching of Islam are not lawful unless the persons participating in these activities are professional soldiers and preachers.

Ibn Abbas reported that a party of the Prophet's companions passed by a place of water. There was man among them who was beaten by a scorpion or snake. A man from among the owners of the place of water came before them and said: is there any charmer among you? Verily in the place of water there is a man bitten by a scorpion or snake. A man from them advanced and read the Opening of the Book for wages of a goat and then he was cured. He came with the goat to his companions who disliked that and said: "You have taken wages for the Book of Allah (SWT)". Then they came to Madinah and enquired: O Messenger of Allah (PBUH), he has taken wages for the Book of Allah. The Messenger of Allah said: the book of Allah has got more right for wages than what you have taken for (*Bukhari*). And in a narration: you have done well! Divide it and set up a share for me with you.

In the Islamic economic system the economic differences between individuals are never ignored. This stratification is necessary for lively economic activity (Tabakoglu, 1983; Khan, 1975; Mawdudi, 1969; Qutub, 1968). 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. 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). Islam appreciates skill and experience and permits hierarchy (Khan, 1975). However, 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). Profit and earnings must be according to the profession, skill, risk to life and health, and the depreciation of the health and physical strength of the workman, location, climate, environment and conditions. Eventually this world is a trial for every one instead of superiority (Tabakoglu, 1983)[15]. However, it does not mean that in an Islamic society, differences should be treated in a discriminatory manner. In an Islamic state every citizen is equal; the only consideration is the level of his skill, training and efficiency in the context of earnings and profit (Azid, 2005).

The minimum wage rate in an Islamic society will be determined keeping in view the basic human needs which include food, clothing and house. A worker shall be paid adequate wages so that he can meet expenses on his and his family's food, clothing and house. He should also be provided for his children's education and medical treatment of his oneself and his family. It is reported that Prophet Muhammad (PBUH) used to prescribe minimum wages of a person engaged for some government job with a view to provide him decent living. He used to say:

For a Government servant, if he is not married, he should get married; if he has no servant, he may have one; if he has no house to live, he may build one' and anyone who exceeds this limit is either a usurper or a thief.

This yardstick fixed by the Prophet of Islam should be kept in view while fixing minimum wages in an Islamic state.

Exchange in the labor market also follows the same evolutionary model under knowledge production through the cooperative medium between and among labor and employer in terms of extensive employment contracts, including those determining the production of goods and its distribution. Wage is now the result of such a contract of interactions in a classical labor market under interactions by participation. Since goods have “*fitra* value”, it is the process of interactions that will reveal the recognition of “*fitra* value” in wage discounting/appropriate wage-determination. This is done by the supply of dynamic forms of basic needs as consumer preferences change as well as production menu change towards such basic needs. “*Fitra* value” remains embedded in such basic needs regimes through supply and demand of dynamic basic needs, while monopoly and monopsony are controlled.

2.4 Islamic vs conventional market

It is very much surprising that in common discussion it is admitted that the Islamic labor market should behave similar to the conventional labor market. It is argued that the profit sharing programs and pension programs are the closest in spirit and direction to the values of Islam. The real difference between capitalism and Islam is the wide ocean of difference between the executives and workers. Income of executives is usually very high as that of a blue collar earner. However, the explanation and the arguments are not sufficient as it should be. In this sub-section, an attempt is made to explain this in the context of Islam.

Markets are promoted in Islam but they are not governed by the invisible hand principle, as interactions in a systemic complexity determine the ethical guidance according to *Shariah*. This is the embryonic *Shuratic* discourse that remains pervasive in all menus, not simply in the political sphere.

Labor as factor is a service that is interactively determined by the derived demand function of a knowledge-induced production menu. In these factor-derived-demand functions, the “universal complementarity” among factors and goods/services prevail. This condition of unity of knowledge is promoted by the institutional and technological evolution. One can extend these ideas to general systems of interrelations: money, production, prices and factor utilization; public policy and market venue; preference transformation and social transformation; community and household interactions; etc.

Pricing of factor (labor) is done according to the intrinsic theory of value. This value remains intrinsic and is revealed only in terms of ethical guidance in the market exchange venue. It is not necessary to quantify it. Its effect on preference formation and complementary action between labor and other factors is essential. Prices are thus not determined by demand (utility) or supply (classical) prices as in the *ceteris paribus* condition of invisible market exchange. “Optimality” of resource allocation principle is replaced by the circular causation and continuity model of learning in the interaction, integration and evolution (or *Shuratic*) process worldview of unity of knowledge. Markets, institutions, society, polity and technology are thus determined according to the requirements and the regenerative force of complementarity in the system of knowledge exchange, consensus and further evolution.

Almost all the Muslim jurists have the consensus that demand and supply have their unique and significant importance in the market mechanism but with the

distinct basic norms and ethical foundations. And no one is denying that Islam likes those economic activities which are generating income and wealth in the society. For example, Al-Ghazali is critical of those who insist upon subsistence level of living for people generally. In his opinion such an approach may be suitable only for those pious people who only seek the Hereafter; it cannot be a prescription for society as a whole. On the other hand, if such a person is discontent and craves for people's charity, then it is preferable that he should engage in earning his livelihood (Ghazanfar and Islahi, 1997, pp. 13-14).

According to Al-Ghazali, in an Islamic system, market has its own distinct standards of morals and ethics[16]. Every economic agent in the market should have the knowledge about the objective of *Shar'iah*[17] (Islam deals with information and knowledge in a different context). Market forces should follow the basic principles of Islam and the only intention will be to please Allah (SWT)[18]. Al-Ghazali quotes one of the sayings of Ali Bin Abi Talib (may Allah bless him), "a man would be pious if he acquired the whole world to win Allah's pleasure, and not so if he rejects everything for reasons other than Allah's pleasure." Thus, Al-Ghazali's idea of the proper functioning of the markets requires that it should be free from any types of defects, evils and exploitations and stays within the periphery of *Shari'ah* (Ghazanfar and Islahi, 1997, p. 22). He further added, that Islamic market is not so much mechanized and not value-free. It is the objective of the *Shari'ah* that economic activities should reflect Islamic values, the participants' behavior should encompass benevolence (*Ihsan*) as well – which means:

[...] doing something extra that benefits a person engaged in transactions above and beyond the material benefits, though that extra is not an obligation; it is merely an act of generosity (Ghazanfar and Islahi, 1997, p. 22)[19].

According to Al-Ghazali, a person can transform his worldly economic activities into a means for ensuring the rewards in the life Hereafter – which is to be the ultimate goal of every Muslim. Here, again Al-Ghazali suggests several guidelines: the trader or businessman should act Islamically, seek the fulfillment of socially obligatory duties (*fard kifayah*), material terms should not blind him against success in the Hereafter, should not be greedy, refrain from *haram* (prohibited) activities, and ought to remember at all times that he is accountable before Allah (SWT) for all of them (Ghazanfar and Islahi, 1997, p. 22).

Incidentally, Al-Ghazali identifies certain groups of people who need not engage in economic activities directly; these are people who perform important social and religious functions for the well-being of the society. These groups include:

- people who are ascetics, engaged in physical worship and who are spiritually enlightened and able to discern the apparent and hidden secrets of human condition;
- people who are engaged in the professions of teaching and guiding others (*sanat al talim*); and
- those public servants who are responsible for the conduct of worldly affairs of the state – rulers, judges, etc. (*sanat al siyasa*).

Groups such as these can depend upon the public exchequer for their economic support.

Al-Ghazali then goes on to enumerate six guidelines concerning exercising benevolence in the market place (Ghazanfar and Islahi, 1997, p. 22):

- the seller should not charge a price that results in excessive profits; and
- the buyer should be lenient when bargaining with a poor seller and strict when transacting with a rich seller (one can conclude that the same is true in the determinations of wages, for example, if someone is unskilled he should be treated nicely with the component of benevolence).

Al-Ghazali discussed in detail the market environment, i.e. cooperation and competition. While cooperation and coordination are emphasized, Al-Ghazali is also conscious of the competitive environment in which economic activities tend to take place. According to Al-Ghazali:

[...] when people live in a society and their desires for different things develop, there tends to be a struggle in acquiring the fulfillment of those desires. There is competition, but a balance can be maintained through the exercise of authority and maintenance of justice[20] (Ghazanfar and Islahi, 1997, p. 26).

Azid and Asutay (2007, p. 161) described the above phenomenon in the following way:

Thus, a good deal of complementarity among diverse number of ethical injunctions is attained. This helps also in diversifying and reinforcing the productive inputs and the skill and the human development in the Islamic system. The increase in efficiency in the system is the result of coordinative and participatory medium of learning and decision-making through joint ventures that the principle of complementarity promotes. In this mutable ethical-economic milieu the equilibrium is not static it is moving towards the higher level of social well being function.

And:

It should be noted that while self-interest, and hence market mechanism is accepted as the motivation and centre for exchanges, respectively, Islamic economics requires market to work with cooperation, compassion, justice, charity and solidarity (Ahmad, 2003, p. 195).

Ibn Tamiya and his student Ibn Qayyam further elaborated the dimensions of labor market and are in opine that labor market has the same standard of ethics, rules and regulation as we have in the goods market under the framework of Islam (Islahi, 1984, 1988).

It has been admitted in the conventional economics that no one has perfect knowledge about the future so the market phenomenon was replaced by the agreement and contract in between the firm, management and workers. This is the failure of the market mechanism and the desperation by the believer of it (Joskow, 2002; Pittaway, 2005). But Islamic economics believes that by using the components of ethics and moral values the market mechanism can work more efficiently.

Recapitulations

The above discussion gives us an insight in the problem of labor, its market and determination of wages under the umbrella of *Tawhidi* methodology. The main features of this note are presented below:

- The input of *fitra* is like a value variable (imponderable) linked with two stages of knowledge production – intrinsic knowledge that is innate in exchangeable knowledge flows that are evolved by interactions, say among cooperating agents

of the markets and between agents and the observation of variables trends (empiricism). Market exchange is of the classical nature but with this value element in the process of exchange describing not steady-state equilibrium point but evolutionary equilibrium as a result of the knowledge caused and regenerated by interactions, thus affecting the demand and supply schedules through the inhering process of interactions among participants (cooperative ones). We can draw an evolutionary form of moving cobweb equilibria that are simply expectational in nature; they are not static except for the very instantaneous case of non-learning.

- Exchange in the labor market also follows the same evolutionary model under knowledge production through the cooperative medium between and among labor and employer in terms of extensive employment contracts, including those determining the production of goods and its distribution. Wage is now the result of such a contract of interactions in a classical labor market under interactions by participation. Since goods have “*fitra* value”, it is the process of interactions that will reveal the recognition of “*fitra* value” in wage discounting/appropriate wage-determination. This is done by the supply of dynamic forms of basic needs as consumer preferences change as well as production menu change towards such basic needs. “*Fitra* value” remains embedded in such basic needs regimes through supply and demand of dynamic basic needs, while monopoly and monopsony are controlled.

Notes

1. A brief review about the criticism is presented in Alamasi (2000).
2. “If every one on a sinking ship insisted on being the last to leave, the result would be catastrophic. This example demonstrates the danger inherent in evaluating actions by intent. A society composed entirely of self-sacrificing benevolent individuals would not necessarily attain prosperity – in fact, it could find itself in the depth of poverty. There seems to be no escape in a large class of situations from the need to judge actions by their consequences, however, difficult these are to predict. In practice, one is forced to judge actions by their expected consequences, while recognizing that since people’s expectations will differ, so too will their evaluations” (p. 371).
3. The analysis of this paper is based on that *Tawhidi* methodology which is developed by Professor Masudul Alam Choudhury (for detail of this methodology see Choudhury, 1989, 1992, 1995a, b, c, 1996a, b, c, 1997, 1998a, b, 2000).
4. The basic and principal norm for human behaviour and for all human activities, as mentioned in the *Quran* is righteousness. A man thus is forced to think of right and wrong; and good and bad before doing anything. “Those who believe in the *Quran* and those who follow Jewish (Scriptures) and the Christians and Sabians, any who believe in Allah and the Last Day and *work righteousness* shall have their reward with the Lord. On them shall be no fear, nor shall they grieve (2:62)”. “Say: Not equal are things that are bad and things that are good even though the abundance of bad may dazzle thee. So fear Allah, so that you understand, so that you may prosper (5:103)”.
5. This is a norm for all human activities and human dealings and it means doing the things in their best style. The human activities and dealings are required to be ameliorative and beautifying the activity so that the one, doing the activity not only achieves the objective but feels good too for doing so and makes all others involved in the activity feel good.

6. It is a general rule for human conduct not to inflict harm upon oneself nor cause harm to any one else.
7. In the Islamic framework, knowledge about *Sharia'h* is the universal set and information about the market is a subset. Another important aspect relates to asymmetric information among entrepreneur, investor, stockholder and bank, i.e. the moral hazard problem. It is always assumed that Islamization of society leads to increased practice of Islamic values such as honesty; as a consequence the moral hazard problem would be reduced. *Quran* also instructs the believers to say the truth and not to hide the shortcomings of the traded goods (see *Qur'an*, 33:70; 8:27 and 28:77).
8. Islamic system is based on ethics and values and the most important of them is the godfearingness.
9. Wages, according to Islam, are to be determined in equitable manner, without harming the interests of any party, keeping in view the following Islamic teachings from *Qur'an* and *Hadith*: wrong not, and ye shall not be wronged. (2:279) and Lo! Allah(SWT) enjoineeth justice and kindness (16:90). Abu Dhar reports that the Holy Prophet said: "They (your slaves or servants) are your brethren, God has placed them under your control; so whoever has his brother under his control should feed him from what he (himself) eats and give him clothes the like of which he (himself) wears; and do not impose on them task which should be too hard for them, and if you impose on them such a task, then help them (in doing it)" (Bukhari, Muslim).
10. "The Prophet (PBUH) commanded that quick payment should be made before worker's sweat have become dry" (Ibn Majah) and "On the last day of judgment, he will become an adversary of anybody who hires labour but does not give his wage" (Bukhari). *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).
11. Tag el-Din (2002, p. 201) described the behaviour of stockers as "food shortages are created through monopolistic practices, where profiteering suppliers are tempted to build up stocks of high demand storable food items to influence market prices and make large profits. The potential damage becomes even more serious when shortages are created in staple food, in order to capitalize on its low demand elasticity".
12. Wrong not, and ye shall not be wronged (2:279) and Lo! Allah (SWT) enjoineeth justice and kindness [. . .] (16:90) Abu Dhar reports that the Holy Prophet said: "They (your slaves or servants) are your brethren, God has placed them under your control; so whoever has his brother under his control should feed him from what he (himself) eats and give him clothes the like of which he (himself) wears; and do not impose on them task which should be too hard for them, and if you impose on them such a task, then help them (in doing it)." (Bukhari, Muslim).
13. *Qur'anic* verse provides insight: "And produced therein all kinds of things in due balance" (15:19).
14. The Prophet (PBUH) said: the government is the guardian of anyone who has no guardian (Abu Daud, Tirmizi) and Caliph Umar once said: each and every Muslim has a right in the property of Bait-ul-Mal whether he exercises it or not (Kitab-ul-Amwal). Ibn Hazm, a great Muslim jurist says: "It is the duty of the rich that they should meet the needs of the poor and the destitute of their village or town. And if the treasury is not sufficient to meet their needs, then the state has the right to take their surplus wealth, if necessary by force, to meet the needs of the poor in the community. He further says that all the companions of the Holy Prophet are agreed upon this that if there is anyone hungry or naked or without shelter,

it is incumbent upon the state to supply his needs from the surplus wealth of the rich (in case its own treasury is insufficient”).

15. Such principles are observed in the following Qur’anic sources: “And for all there will be ranks from what they do” (46:19). “He it is who hath placed you as viceroys of the earth and hath exalted some of you in rank above others, that he may try by you (the test of) that which he have given you” (6:166).
16. Islamic system is based on ethics and values and the most important of them is the godfearingness.
17. In the Islamic framework, knowledge about *Sharia’ah* is the universal set and information about the market is a subset. Another important aspect relates to asymmetric information among entrepreneur, investor, stockholder and bank, i.e. the moral hazard problem. It is always assumed that Islamization of society leads to increased practice of Islamic values such as honesty; as a consequence the moral hazard problem would be reduced. *Quran* also instructs the believers to say the truth and not to hide the shortcomings of the traded goods (see *Qur’an*, 33:70; 8:27 and 28:77).
18. Contrary to the conventional system, the objective of consumers as well as producers is to please Allah (SWT) instead of maximizing their own utility and profit. All the economic agent must follow the basic norms of Islam, i.e. righteousness, *Ihsan* and avoidance of *israf*, etc.
19. Tag el-Din (2002, p. 201) described the behaviour of stockers as “food shortages are created through monopolistic practices, where profiteering suppliers are tempted to build up stocks of high demand storable food items to influence market prices and make large profits. The potential damage becomes even more serious when shortages are created in staple food, in order to capitalize on its low demand elasticity”.
20. Competition and cooperation are complements to each other in an Islamic economic market.

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