

# An Islamic Framework for Employer-Employee Relationships

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## Introduction

Islamic teachings envisage a balanced society achieved through the functioning of Islamic institutions. This paper visualizes three main institutions: *ukhūwah*, *'adl*, and *ihsān*. *Ukhūwah* (brotherhood) promotes the bonds of brotherhood, and *'adl* (justice) enforces a system of individual and social obligations. Islam stresses the importance of meeting one's obligations, because each obligation has its corresponding right. Thus, an individual's effort to meet his/her obligations leads to the fulfillment of everyone's rights. This does not mean that Islam forbids one from demanding his/her rights, even though this demand does pose a problem related to human nature: an individual wants his/her rights and also some part of another person's rights. Therefore, one group's demand for its rights tends to encroach upon the rights of another group, which causes social friction and disorder. The institution of *ihsān* (benevolence) goes one step further: it exhorts individuals to forego their rights for the sake of others, which is considered an act of piety.

This paper will study employer-employee relationships in the light of the three institutions mentioned above. A framework for conducting employer-employee relationships is formulated and is then used to determine, from the Islamic point of view, the proper wages. The findings of this paper show that an economically efficient and equitable wage structure can evolve within this framework and that such a wage structure would promote the parties' mutual relationships which, in turn, would lead to industrial peace.

The body of the paper is organized as follows: a review of the existing literature on the subject, the development of an Islamic framework for employer-employee relationships, a discussion of the Islamic approach to wage compensation, and some concluding remarks.

## Review of the Literature

The literature on the question of employer-employee relationships according to an Islamic perspective is scanty and inadequate. Most of the relevant studies confine themselves to describing Islam's moral and judicial injunctions and focus on the employer and the wage earners. Very few studies have endeavored to explore the underlying economic implications of these injunctions.

One of the pioneering studies in this field was done by Tabakoglo.<sup>1</sup> In his study, he discusses the concepts of labor and capital from an Islamic viewpoint. According to his broad definition of the term "worker" (i.e., head of state, province governor, state staff, judge, doctor, engineer, artisan, etc.), the entire society is composed of workers, all of whom have various degrees of specialization.

From the fiqh literature, he delves into two concepts of workers: *ajir al mushtarak* and *ajir al khasṣ*. The former includes workers who get a certain wage in return for a particular service, such as tailoring, hair-cutting, and so on. The latter concept includes workers who work for a person or an institution, in other words those who are paid according to how long they have worked. Although he visualizes the same Islamic principles determining the wage rates of all workers, he does not spell out those principles. In addition, he considers strikes and lock-outs as concepts that are inconsistent with the teachings of Islam.

Omar<sup>2</sup> writes that Islam stresses the fulfillment of obligations, as opposed to the claiming of rights, in every field or human activity. Ashraf<sup>3</sup> makes the same point. Uzair<sup>4</sup> notes that Islam has laid down detailed instructions regarding employer-employee interaction and relationships. The philosophy of these instructions is that a worker should not be treated unjustly or subjected to any undue exploitation by an employer.

Chapra<sup>5</sup> points out the individual obligations of employers and employees. These obligations tend to harmonize mutual relationships and eliminate conflicts and frictions. The hard core of Islamic injunctions is that each party should do its job conscientiously and diligently and that it should deal with the other honestly and faithfully. Usmani<sup>6</sup> has compared the socioeconomic position of workers

<sup>1</sup>Ahmad Tabakoglo, "Labor and Capital Concepts," in *Islamic Economics and Distribution in Macroeconomic Framework: An Islamic Perspective*, edited by Fahim Khan, 77-91.

<sup>2</sup>Muhammad S. Omar, "Foundational Principles Underlying Human Rights in Islamic Law," *al Balagh* (November 1990): 27-30.

<sup>3</sup>Ahmad S. M. Ashraf, "Rights and Obligations in Islam," *ibid.*, (October 1990): 21.

<sup>4</sup>Muhammad Uzair, "Islamic Economic System: An Overview," *ibid.*, (October 1990): 17

<sup>5</sup>Umar M. Chapra, *The Economic System of Islam* (Pakistan: Univ. of Karachi Dept. of Publication), 78.

<sup>6</sup>Muhammad M. F. Usmani, "Muzdoor Islami Muashra Main" (The Laborer in the Islamic Society), *al Balagh* (Karachi) 4, no. 4 (July 1970): 51-9.

in the capitalist, socialist, and Islamic frameworks and recommends that employers voluntarily share the profits of the company with their workers.

Shafi<sup>7</sup> maintains that employers and employees are individuals who belong to the same brotherhood and enjoy equal social status. Islamic law protects the rights of both groups. He also says that the Islamic state should determine the minimum wage rate through a process of tripartite negotiation at which employers and the state are equally represented and rules are laid down to ensure that workers receive their due. In another work<sup>8</sup> he discusses the question of wages. He allows the market mechanism to determine wages on the basis of human sympathy and brotherhood, not on the basis of self-interest. Moreover, such market-determined remuneration has to be supplemented so as to conform to the three goals of wealth distribution in Islam.

Sadeq<sup>9</sup> deals with how to price various production factors from an Islamic point of view and also discusses the distributional implication of this approach. He defines labor as human services, be they physical or mental, and includes therein managers and supervisors. He considers two determinants for the pricing question and calls them primary and secondary factors. The primary factor reflects those Islamic concerns related to guaranteeing one's basic needs, ensuring humane work loads and working conditions, and extending brotherly treatment to employees. In this context, he recommends minimum wage laws. Moreover, if the minimum wage is inadequate to meet the basic needs of a worker's family, the deficit will be met through zakah revenues. Sadeq's paper relies heavily on the role of primary factor and state intervention. He holds an employer responsible for meeting an employee's basic needs, which he says is a social responsibility. However, the brotherly relationship between an employer and his/her employee does not mean that an employer can be forced to pay more than the value of his/her employees' work.

Khan<sup>10</sup> believes that Islam encourages self-employment; hence, the concept of wage laborers does not fit into the Islamic framework. It is obvious that Khan has overlooked incorporated businesses where the need of wage earners inevitably arises.

According to Nadvi,<sup>11</sup> Islam provides comprehensive laws to address the multidimensional concerns of workers. These laws solve various problems of

<sup>7</sup>Mufti M. Shafi, "Islami Nizam ka tahat Moashi Islahat" (Economic Reforms in an Islamic System), *ibid.*, 3, no. 9 (December 1963): 115-25.

<sup>8</sup>Mufti M. Shafi, *Distribution of Wealth in Islam* (Karachi: Begum Aisha Bawani Publications, 1970), 36.

<sup>9</sup>A. H. M. Sadeq, "Factor Pricing and Income Distribution," *Journal of Islamic Economics* 2, no. 1 (January 1989): 45-57.

<sup>10</sup>Muhammad A. Khan, "Islamic Economics: An Overview." Paper presented at the Senior Officer Training Programme organized by IIIIE, Pakistan, January 1991.

<sup>11</sup>Mujibullah Nadvi, "Islam qanun-e-ujrat ka ek bab" (A Chapter of the Islamic Law of Wages), *Ma'arif* (Azamgarh) 77, no. 6 (June 1956): 405-21.

workers in a balanced manner. For example, laws relating to wages require the rates to be determined by mutual bargaining between workers and employers. The parties draw up a wage contract which spells out all necessary details, and neither party can abrogate it unilaterally. The Islamic state can interfere in the labor market for the purpose of interpreting or enforcing the contract.

AbūSulaymān<sup>12</sup> briefly mentions the wage question in his discussion on distribution. Although he does not discuss how to determine wages, he recommends the establishment of wage-ensuring institutions to stabilize seasonal and cyclical wage fluctuations. He also favors the formation of industrial unions.

Metwally<sup>13</sup> believes that the objective of an Islamic (as opposed to a secular) firm is to realize a “fair” or a “reasonable” profit level. In his paper, he solves a constrained utility maximizing problem for an Islamic firm. The utility function has two arguments: profit and spending on charity. The constraint is a minimum acceptable level of profits. His model generates a higher price-quantity configuration for an Islamic firm relative to that of a secular firm. From the social point of view, it is not clear if the outcome is favorable or not. Taking consumer surplus as an index of social welfare, the outcome is less favorable, as is evident from the linear demand and supply curves used in the model.

Yusufuddin<sup>14</sup> discusses various worker-related issues. On the wage issue, he would like to see that workers are paid as much as possible. The wage rate should be high enough to take care of such basic material needs as food, clothing, and shelter. He allows government intervention in order to redress workers’ grievances. Moreover, he recommends that workers share in the profits of a business enterprise.

Said<sup>15</sup> is of the opinion that a proper framework for entrepreneur-worker relationships can be derived from the principles of brotherhood, justice, and fair play. Islamic moral values purge entrepreneurs of such base sentiments as, for example, exploitation and generate feelings of mutual trust and harmony. Employees are treated humanely by their employer and, in turn, they are conscientious workers. Moreover, he refers to different forms of economic organizations to show the status of workers in Islam. He also recommends that the wage rate should be high enough to meet the basic needs of all workers.

In short, the literature focuses on two points: the social status of workers and meeting their basic needs. However, none of the authors have analyzed these

<sup>12</sup>AbdulḤamīd AbūSulaymān, “The Theory of the Economics of Islam,” in *Contemporary Aspects of Economic Thinking in Islam* (Indianapolis, IN: American Trust Publications, n.d.), 41-2.

<sup>13</sup>M. M. Metwally, “A Behavioural Model of an Islamic Firm,” discussion paper no. 50 of the International Centre for Research in Islamic Economics, King Abdul Aziz University, Jeddah, Saudi Arabia, p. 14.

<sup>14</sup>Mohammad Yusufuddin, *Islam Ka Moashi Nazriya* (Economic Doctrines of Islam), (Karachi: Allied Book Company, n.d.), 365-88.

<sup>15</sup>Hakim M. Said, *The Employer and the Employee Islamic Concept* (Pakistan: Dar al Fikr al Islami, 1972), 26-74.

issues and their economic implications in a systematic manner. The intent of this paper is to fill this gap.

## A Framework for Employer-Employee Relationships

Islamic teachings elevate the productive efforts of the individual to the status of *'ibādah*. Every individual is exhorted to strive for his/her own sustenance and welfare rather than to beg or ask help from others. Accordingly, employers and employees undertake their particular activities with the intent of earning and living as useful and respectable citizens of their particular society. It is in this context that the need for an Islamic framework to regulate their mutual relationships arises. For this purpose, the paper suggests a general framework that can guide intragroup and intergroup relationships. However, the focus is on the employer-employee relationships.

Before discussing the framework, it is important to clarify the terms “employer” and “employee” as used in the paper. The term “employer” is used to refer to any businessperson or entrepreneur engaged in any productive activity. The term “employee” means any worker who offers his/her mental or physical service in exchange for certain material compensation. The words “employees,” “workers,” and “servants” are used interchangeably.

The Islamic framework consists of three institutions: *ukhūwah* (brotherhood), *'adl* (justice), and *ihsān* (benevolence). These institutions are based on the injunctions of the Qur'an and the prophetic hadith.

Islam unites all individuals in the bond of universal brotherhood, *ukhūwah*, as if they were members of one single family. Each and every individual within this brotherhood is entitled to equal social status. This is summed up by one prophetic hadith: “Mankind is the family of Allah and the most beloved of them before Him is the one who is best to his family.”<sup>16</sup>

The most important implication of brotherhood is cooperation and mutual help, a point stressed by the Qur'an: “. . . help ye one another in righteousness and piety”<sup>17</sup> and “The believers, men and women, are protectors, one of another.”<sup>18</sup> Some of the prophetic hadith bring out the significance of cooperation more explicitly: “A Muslim is the brother of another Muslim. He neither wrongs him nor leaves him without help, nor humiliates him”<sup>19</sup> and “A believer to another believer is a support, as each part of a building supports the other.”<sup>20</sup>

<sup>16</sup>*Mishkat* (Karachi: Saeed Co., n.d.), 425.

<sup>17</sup>Qur'an 5:2.

<sup>18</sup>Qur'an 9:71.

<sup>19</sup>*Ṣaḥīḥ Muslim*, vol. 2 (Karachi: H. M. Saeed Co., n.d.), 317.

<sup>20</sup>*Ṣaḥīḥ al Bukhārī*, vol. 2, Karachi: Ashah-ul-Mutabeh, n.d.): 890.

According to the above injunctions, then, employers and employees are individual members of one brotherhood. All individuals, regardless of any group distinction, enjoy the same degree of respect, love, and social status. The level of hope and confidence which a brother/sister enjoys vis-à-vis another brother/sister is also shared between an employer and his/her employees.

Fraternal ties at the individual level generate favorable implications for the labor market's functioning. The supply and demand forces get imbued with the qualities of human sympathy, accommodation, and fair play rather than being bogged down by narrow self-interest. Consequently, negative experiences emanating from selfish attitudes are less likely to occur. For the sake of comparison, three examples from each experience can be cited from secular economies. On the other hand, the underlying forces of brotherhood will minimize the chances that these experiences will occur in an Islamic economy.

One example relates to the shirking behavior of workers in capitalist firms. In such firms, a team of workers completes a production process. Monitoring each individual's contribution is not only costly but also very difficult, if not impossible. In such processes, workers have an incentive to cheat because each worker seeks to maximize his/her own personal utility.<sup>21</sup> In an Islamic framework, such shirking is not only viewed as a great sin in the light of *Sūrat al Mutaffifīn*, but it also amounts to willfully harming one's fellow employees.

The second example relates to the short-sighted role of the typical secular labor union at the factory/industry level. Acting as a closed shop, the union's bargaining power tends to harm the interests of nonmembers. By coercing its members, the union tries to take competition out of the supply side of the labor market. From the standpoint of brotherhood, such a role is untenable. A union role consistent with Islamic teachings would be the coordination of the wage-bargaining activities of the employers and the employees' union either across industries or at the national level. In this way, the interests of all workers could be protected without any discrimination. The economic gains of this approach are also obvious from the experience of those countries who have such arrangements. And, the relevant evidence also indicates that for any given amount of union power, unemployment is lower if the union and the employers coordinate their wage bargaining across industries or nationally.<sup>22</sup>

The third example cites the case of Afro-Americans in the United States. These employees are paid less than their white counterparts who have jobs at a comparable skill level. There is considerable evidence concerning this fact.<sup>23</sup> The spirit of brotherhood would cut across all forms of discrimination, with the

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<sup>21</sup>A. A. Alchian and H. Demsetz, "Production, Information Costs and Economic Organization," *American Economic Review* 62 (December 1972): 777-95.

<sup>22</sup>*The Economist* (28 September 1991): 16-7.

<sup>23</sup>L. Thurow, *Poverty and Discrimination* (Washington, DC: The Brookings Institution, 1969).

result that those who work at the same skill level would receive the same compensation.

In short, the implementation of the Islamic concept of brotherhood would rule out all such relationships in which an employer acts from a position of power and strength and his/her employees act from the position of socially weak and needy persons. On the other hand, these Islamic relationships are based on mutual love, respect, a spirit of accommodation, and consideration.

The institution of *'adl* (justice), plays a key role in realizing the goal of social balance, for it provides legally enforceable measures related to implementing the obligations specified in the contracts. Relatively speaking, the institution of *'adl* is more important than that of *ihsān* (benevolence), as the following indicates: "Allah commands justice, the doing of good, and liberality to kith and kin, and He forbids all shameful deeds, and injustice and rebellion. He instructs you, that ye may receive admonition."<sup>24</sup> Notice that *'adl* precedes *ihsān*.

The primary concern of *'adl* is to root out all injustice and exploitation in a given society. Islam, as a divine religion, is aware of the inherent weaknesses of an individual. Every individual wants to get his/her rights and, if possible, to get something more from the share of the other individuals. If he/she somehow succeeds, conflict and strife would be the inevitable result, because the aggrieved party would try to resist. Under these circumstances, Islam stresses that the individual's obligations must be met, and not that each individual should claim his/her individual rights. According to Islam, for each obligation there is a corresponding right and vice versa. There is a one-to-one correspondence between them, and thus those efforts made to meet the obligations simultaneously satisfy the accompanying rights.

In prescribing the obligations of different groups of individuals, Islam has adhered to the principle of *'adl*. Muslims are exhorted to recognize and meet the rights of others, such as friends, relatives, neighbors, children, parents, employers, and employees. Neglecting their rights (i.e., by being oblivious to one's obligations) is tantamount to *zulm* (injustice), which is strictly prohibited. Under such circumstances, the Islamic state is obliged to arrange for the proper recompense to the aggrieved party.

One of the important instruments in Islam for ensuring *'adl* in society is the sanctity and philosophy of *'uqd* (contract). Islamic fiqh has developed a comprehensive code for making contracts. It would be instructive here to note some salient features of the Islamic code of contracts.

In the field of contractual obligations, Islamic legal obligations prescribe norms and limitations which regulate the role of both agents. Any deviation is corrected through the courts. Contractual obligations between individuals are written out in the form of a contract, and Islamic law emphasizes that all contracts

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<sup>24</sup>*Qur'an* 16:90.

should be honored in accordance with the terms of the particular contract in question. The binding nature of contractual obligations is even mentioned in the Qur'an: "And fulfill (every) engagement, for every engagement will be inquired into (on the Day of Reckoning)." <sup>25</sup>

Islamic law requires that the contract's details be written out and witnessed by a neutral party. Any contract not specifically prohibited by Islamic law is valid and binding on the parties and must be enforced by the courts. All contracts have to qualify certain conditions; otherwise the contract becomes void. The Prophet has said: "A man shall honor his contracts together with all binding conditions provided that the conditions are rightful and according to the code of Islam." <sup>26</sup>

The most important conditions are the following:

- a) The existence of willingness and the absence of any form of coercion in drawing up the contract. The contracting parties should willingly agree to the terms. If one party feels that the contract is imposed upon it and reports the matter to the court, the court can declare it null and void. In such a case, the contract will not entail any obligation for the aggrieved party.
- b) The awareness by both parties of the rights and corresponding obligations of the transaction underlying the contract. In other words, both parties should be fully informed of the costs and benefits of the contract. In case one of the contractants is hurt due to his/her lack of sufficient knowledge or information, the contract can be declared null and void by the court.
- c) The absence of any indeterminacy in the contract. For instance, the employer should know the precise amount of the compensation to be paid and the employee should know the receivable amount as well as the quantity and quality of the work to be performed. This is an essential requirement, for indeterminacy can lead to exploitation and injustice. Therefore, this condition ensures that the parties should determine the relative gains in advance in written form.
- d) The general condition of "no injury." The Prophet said: "Suffer no loss to yourselves nor make others suffer." <sup>27</sup> The contract should provide no undue benefit or cost to any party, so that all contracting parties gain mutually from its terms.

In addition to the above-mentioned (general) conditions, there are certain

<sup>25</sup>Qur'an 17:34.

<sup>26</sup>*Majma' al Zawā'id*, vol. 4, 86.

<sup>27</sup>*Ibid.*, 110.

other specific conditions that have to be met in *ījārah* (hiring) contracts dealing with the hiring of labor. Basically, they specify two questions: the work's nature and duration, and wage compensation.

Islamic teaching regarding the work's nature and duration obligates the employer to avoid assigning excessive work that may overburden the employee. If the amount of work is beyond the capacity of the worker, the employer must help him/her complete it. The guidance of the Qur'an and the hadith literature is very clear on this point, as we can see when Shu'ayb (the employer) told Mūsā (the employee) that: "I do not desire to lay (an undue) burden of labor on you. If Allah wills, you will certainly find me to be one of the righteous."<sup>28</sup>

In the light of the above *āyah*, an employer cannot be righteous if he/she does not save his/her employees from the burden of unnecessary labor. This burden is defined as the amount of work that tends to exhaust employees. It is explained in detail in a hadith: "Your brethren are your servants whom Allah has made your subordinates. So, the man who has his brother as his subordinate, should give him to eat from what he himself eats, and to wear from what he himself wears. And do not put on them the burden of any labor which may exhaust them. And if you have to put any such burden on them, then help them yourselves (in this work)."<sup>29</sup>

The above hadith clearly states that an employer cannot assign an excessive amount of work or a task which takes such a long time to complete that it becomes unbearable to the workers. Moreover, an employer has to take precautionary measures against industrial hazards, provide clean and hygienic working conditions, and supply canteen facilities at the work place. In short, an employer has to facilitate the whole process so that the work is completed in an easy and smooth manner. An *ījārah* contract will therefore contain at a minimum several provisions related to an employer. These are: he/she is expected to a) not overburden employees with an excessive amount of work; b) specify the nature and the amount of work to be done by employees at the outset of the job; c) fix the maximum number of hours which the job is expected to take; d) take the necessary precautionary measures against industrial hazards; and e) provide proper hygienic working conditions and canteen facilities at the worksite.

Another condition of the *ījārah* contract concerns the determination of the wages and extra benefits payable to employees. Both the Qur'an and the hadith literature provide some guidance on this issue. For instance, the wage compensation offered should be sufficient to meet the basic needs of the employee and his/her family. In the Qur'an, there is a mention of the amount of wage compensation vis-à-vis the feeding arrangements for the babies of divorced women: ". . . But he (the father) shall bear the cost of their food and clothing

<sup>28</sup>Qur'an 28:27.

<sup>29</sup>*Ṣaḥīḥ al Bukhārī*, op. cit., vol. 1, 346.

in equitable terms (when mothers have been divorced and are passing their period of *'iddah*).”<sup>30</sup>

According to the above *āyah*, the compensation should be the cost of food and clothing. The question is how far the context of this *āyah* can be generalized. Some guidance on this point is offered in the hadith literature: “Those working under you are your brothers. Those who serve you have been made subservient to you by Allah. It therefore behooves the person who employs a brother to allow the latter to eat out of his own food and to clothe him from his own wardrobe . . .”<sup>31</sup> and “Make them satisfied in regard to their basic needs.”<sup>32</sup>

From the above, it follows that the wage rate, as a norm of the society, should reflect the Islamic concern of meeting the worker’s basic needs. Furthermore, employers are urged in the hadith literature to provide extra benefits to employees: “Pay the workers part of the food grains produced through their efforts, as the servant of Allah cannot be deprived of the produce.”<sup>33</sup>

After both parties agree on the above-mentioned conditions, the *ijārah* contract takes on a legal status, thereby making it impossible for either party to abrogate it without acceptable person-related or job-related reasons. Imams Abū Ḥanīfah, Muslim, and al Bukhārī are of the opinion that if either the worker or the employer falls critically ill or dies (i.e., *maqṣūd ‘alayhi*) or if the job is destroyed by natural factors, then the contract can be considered null and void. However, other scholars do not share this opinion. Similarly, if the factory or the farm is visited by some natural calamity, like a fire or a flood, the owner/employer has the right to revoke the contract. Except for these situations, an *ijārah* contract cannot be revoked for any reason.

In the area of *iḥsān* (benevolence), one’s economic behavior is constrained by Islamic ethics. For the articulation of this behavior, *iḥsān* provides a self-propelling mechanism by strengthening human motivation. In its essence, *iḥsān* means foregoing one’s rights for the sake of others, an act which is considered to be a virtue of a higher order.

In the Islamic polity, the behavior of the individual trying to apply the concept of *iḥsān* in his/her life is quite consistent with the Islamic concept of rationality. The individual displaying *iḥsān* also understands that Allah will compensate him/her for his/her sacrifices, for the Qur’an asks: “Is there any reward for good – other than good?”<sup>34</sup> Through the practice of *iḥsān*, both employers and employees endeavor to be gentle and kind to each other. This, in turn, strengthens social equilibrium.

It is an individual’s elevated morals which allow *iḥsān* to function. Islam

<sup>30</sup>Qur’an 2:233.

<sup>31</sup>*Ṣaḥīḥ al Bukhārī*, op. cit., vol. 1, 346.

<sup>32</sup>*Majma‘ al Zawā‘id*, op. cit., vol. 4, 236.

<sup>33</sup>*Ṣaḥīḥ al Bukhārī*, op. cit., vol. 1, 347.

<sup>34</sup>Qur’an 55:60.

encourages its followers to observe high moral standards, such as truthfulness, honesty, and responsibility. The desirability of acquiring and then employing such qualities on the individual level is mentioned in the Qur'an and the hadith literature:

- a) An employee is encouraged to work hard and earn enough for himself/herself and his/her family. Such efforts are regarded as striving in the path of Allah. The Prophet once said to a Companion: "Try your best to earn for yourself and for your family honestly, since such an effort has, in the eyes of Allah, a rank equal to jihad."<sup>35</sup>
- b) An employee has to bring himself/herself into line with the Islamic notion of a good worker. He/she should be trustful and productive: ". . . engage him on wages; truly the best of men for thee to employ is the (man) who is *strong* and *trusty*."<sup>36</sup> The Prophet also said: "The best income is that which is earned honestly by the hardworking laborer."<sup>37</sup>
- c) An employee is expected to be fully aware of his/her responsibilities and should know how to perform his/her duties competently: "Set me over the storehouses of the land. I will indeed guard them as one that knows (their importance)."<sup>38</sup>

The above-mentioned injunctions motivate workers to take their obligations seriously. After accepting a job, they consider it their own job, meaning that a contractual job should receive their personal attention, seriousness, and devotion. In other words, employees should work harder than required by the strict letter of their contract in order to keep their jobs. The sense of loyalty to their employers and hence to their jobs enables them to enhance their performance so that it can exceed the norms of justice.

Islam has also prescribed high moral standards for employers. They are encouraged to be sincere with their workers and to follow the high standards of honesty, gentleness, kindness, accommodation, forgiveness, and generosity. The main characteristics of an employer are that he/she:

- a) Be honest. An employer must observe Islamic norms in all matters relating to his/her employees. In the hadith literature, we read that "a true and honest businessman will be with the

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<sup>35</sup>*Majma' al Zawā'id*, op. cit., vol. 4, 63.

<sup>36</sup>Qur'an 28:26.

<sup>37</sup>*Majma' al Zawā'id*, op. cit., vol. 4, 61.

<sup>38</sup>Qur'an 12:55.

- prophets, the truthful, and the martyrs on the Day of Judgment.”<sup>39</sup>
- b) Earn his/her living in a *ḥalāl* (Islamically permitted) manner. From these earnings, he/she must pay *zakah* (if he/she is *ahl al niṣāb*) and give charity, which is an act of benevolence. “Bestow alms from the choice part of that which you have earned and that which we have to grow for you from the ground.”
  - c) Be gentle and kind in all transactions relating to either product or market factors. In this connection, the following hadith is instructive. “Jābir reported the Prophet as saying that Allah may bless the man who behaves generously during his acts of selling, buying, and claiming his dues.”<sup>40</sup> In another hadith dealing with the cause of workers, it is said that “the best among you is the one who treats his servants with kindness and charity.”<sup>41</sup> The Prophet himself also called upon employers to watch over their employees’ interests: “Always keep prayers in your mind as well as the rights of the people who are your dependents.”<sup>42</sup>

In short, there are numerous injunctions calling upon employers to be kind, honest, gentle, forgiving, accommodating, and generous vis-à-vis their employees. These injunctions are forceful legal injunctions from the standpoint of the afterlife (*al ākhirah*). An individual’s ultimate success or failure in the afterlife depends a great deal on his/her observance of the moral standards encouraged by Islam. It also goes without saying that one’s concern with the afterlife is of fundamental importance to every Muslim. Therefore, this moral approach reminds both employers and employees of their obligations towards each other. Legal provisions without moral support are of little practical significance, and therefore the Islamic framework regulates interpersonal relationships with the help of both moral and legal institutions.

## An Islamic Approach to Wage Compensation

In this section, the paper examines an Islamic approach to wage determination in light of the framework discussed above. This is a critical issue for employers, employees, and society, and its satisfactory resolution is a catalyst for promoting better relations between employers and employees as well as

<sup>39</sup>Al Tirmidhī, (B-4), 1209, p. 515.

<sup>40</sup>*Sahīḥ al Bukhārī*, op. cit., vol. 1, 278.

<sup>41</sup>*Kanz al Ammāl*, vol. 5, 18.

<sup>42</sup>*Ibid.*, vol. 5, 18.

helping the cause of industrial peace. The paper identifies two essential ingredients of this approach: equity and efficiency. The Islamic approach incorporates both of them.

Equity considerations require any wage compensation scheme to be equitable in the eyes of the employees. The concept of an equitable payment scheme emerges from the equitable distribution of income, which is a key objective of the Islamic economic system. In essence, this scheme calls for the payment of the maximum benefit possible to the workers. Technically, this means that the compensation scheme should provide an adequate supply of real goods and services to the employees per unit of time, so as to enable each worker to afford at least a minimum level of decent living. From this, it follows that the real, rather than the nominal, wage is the relevant concept in Islam. The latter concept refers to the monetary wages which may or may not be adequate for living.

In this perspective, the Islamic concept of “wages” can be interpreted to mean a package of net benefits offered to an employee. The elements of this package may include a monetary amount which enables an employee to meet his/her basic needs plus the adjustment made for working hours, leave and sickness provisions, pension rights, cash bonuses, work intensity, and so on. The package varies as the elements vary. However, the package must meet all of the requirements of the Islamic system. Thus, there is a ground-level limit below which the package (i.e., real wage rate) cannot fall. Above this minimum, the actual size of the package depends on the relative bargaining power of the employer and employees. Hence, there is some fixity as well as market mechanism involved in the actual determination of this package.

Wage differentials are also consistent with the principle of equity. Differences arise on account of relevant skills and moral values, such as honesty and trustworthiness, which are important determinants of wage compensations. Those employees possessing these values will be more productive. Two employees sharing the same amount of physical power and skill but differing in terms of honesty and sense of responsibility would most likely not perform exactly alike, a factor which would entitle them to different compensation. In this connection, the Qur’an says: “O my father! Engage him on wages; truly the best of men for thee to employ is the (man) who is *strong and trusty*.”<sup>43</sup>

The above discussion can be summed up by the statement that the Islamic framework desires the implementation of minimum wage laws as well as the market determination of wage rates. The implementation of minimum wage laws, however, raises an important policy question regarding the permissibility of intervening in the market. Islam, broadly speaking, is for free-market forces and against any market intervention. This can be seen in the hadith which states that: “Once during the time of the Prophet, prices shot up. The Companions

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<sup>43</sup>Qur’an: 28:26.

of the Prophet asked his permission to make a proposal. The proposal was that under the circumstances, it seemed desirable for the Prophet to fix the prices for us. The Prophet said that ‘Allah is the sustainer. He expands and contracts the sustenance. He fixes the prices. It is my wish that I may be presented to His court on the condition that I owe nobody’s right and, hence, there is no demander of his right from me; and I have done excess to nobody who wants to seek his recompense from me.’”<sup>44</sup>

It follows, therefore, that in normal circumstances the Islamic state should not intervene in the market for the purpose of fixing wages or prices. However, if market imperfections exist, then the state can intervene for the sake of enforcing *qīmat al mithl* (intrinsic price), but only for an interim period. As soon as the imperfections are removed, the state-regulated price or wage is to be discontinued and the market-determined price or wage is to prevail once again. To support this view, the opinion of Abū Ḥanīfah can be cited. It is interesting to note that although he is a strong opponent of *tas’īr* (price control), under certain conditions he relaxes this policy: “If the owners of wheat become monopolists and charge excessive prices (more than the allowable *qīmat al mithl*), the *qāḍī* has no alternative except the instrument of price control to protect the right of the Muslims. (In such a case), then, there is no harm in using this instrument after consulting the experts and wise people.”<sup>45</sup>

It transpires, therefore, that the Islamic state can intervene in the labor market to protect the interests of workers. Looking at the real conditions of workers in many contemporary Muslim countries, it appears that many are living at a very low level of economic life. For instance, the average nominal monthly wage of an industrial worker in Pakistan was Rs. 496 during 1975-79.<sup>46</sup> The objective conditions — namely, a low level of wage earning on the part of employees and the monopolies and protections enjoyed by producers — suggest state intervention. To minimize the cost of any intervention, the state should set up tripartite wage boards composed of representatives of trade unions, employers, and the state. All parties should have equal representation on these boards. Through mutual consultation, the boards can then determine the minimum wage rate to which every worker, no matter how unskilled, is entitled. The wage rate for other workers will be determined by the bargaining power of the workers and the employers.

The permissibility of a minimum wage rate (an equity consideration in an Islamic economy) is one thing, but its feasibility is another. For instance, if the value of the last-hired worker’s contribution to the marginal physical product is lower than the statutory minimum wage rate, the extra payment would represent

<sup>44</sup>Abū Dāwūd, vol. 3, Dār ul Fikr, p.272.

<sup>45</sup>Takmallah Fata-ul-Qadir, vol. 8 (Egypt: al Maṭbah al Amirīyah, 1318 AH), 27.

<sup>46</sup>*Year Book of Labor Statistics* (Geneva: ILO, 1983), 557.

a net loss to an employer, a development which runs counter to the efficiency criterion. Islamic teachings are explicit on this point: “Man can have nothing but what he strives for”<sup>47</sup> and “On no one’s shoulder does Allah place a burden greater than it can bear.”<sup>48</sup>

Hence, one of the requirements of efficiency is that an employer cannot be made to suffer the loss. Efficiency in labor employment means that the cost of employing the last worker is (precisely) equal to the value of the marginal product. If an employer is a profit maximizer (as in the secular context), then forcing him/her to pay the minimum wage rate to all employees would tend to cut down the level of employment. Such an outcome would harm workers more than it would help them. The real question of this debate is to demonstrate how to implement a minimum wage policy for those segments of the work force whose marginal revenue product is less than the statutory minimum wage rate.

The question can be addressed both at the employer and the state levels. At the employer level, two factors are worth considering. The first is psychology and tastes. If an employer is imbued with Islamic values, then he/she is not always looking at potential economic benefits alone – he/she is also looking for reward in the afterlife. The second is that employees who have high moral values will produce at an enhanced level, for guiding themselves by these values has made them realize that they have contracted to supply an adequate flow of effort per unit of labor time. Consequently, there will be less incidence of shirking, slow-downs, and machine breakdown due to negligence. Moreover, labor productivity would also increase for physical reasons, for the satisfaction of worker’s basic needs will improve their physical condition. Thus, when an employer pays his/her employees, one part of the compensation may be to seek labor productivity and another part of it may be to seek Allah’s pleasure by meeting his/her employees’ needs for His sake alone. As a result of this policy, a worker may receive more in an Islamic economy than his/her counterparts do in a secular economy without violating or ignoring the rule of efficiency. The wage paid by an Islamic employer will contain two elements: one based on reflecting the marginal productivity and hence efficiency consideration, and another reflecting *sadaqah* (transfer payment) and hence reflecting equity considerations. Such a combination of equity and efficiency elements is unique to the Islamic system.<sup>49</sup>

At the state level, action would be required whenever an employer fails to meet a worker’s minimum needs. This may happen when the employers in question are not properly imbued with Islamic values. In such a case, the state

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<sup>47</sup>Qur’an 53:39.

<sup>48</sup>Qur’an 2:286.

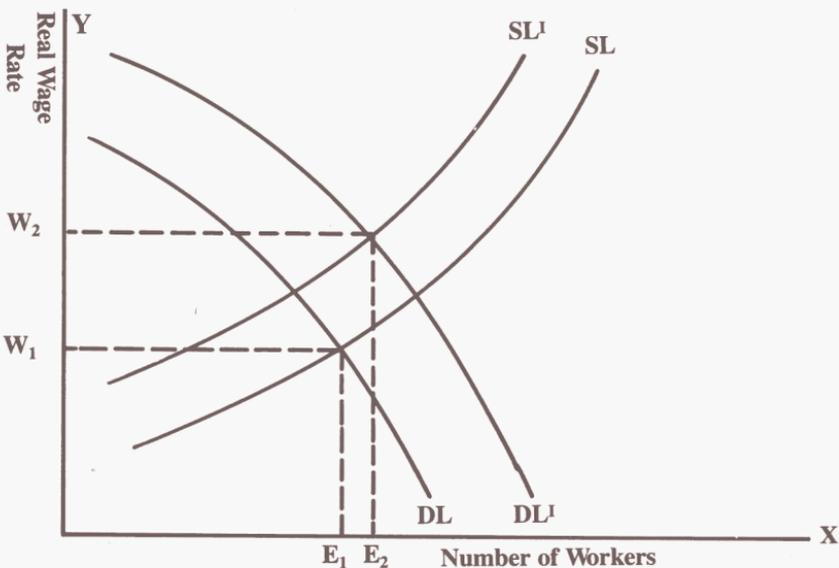
<sup>49</sup>This point was suggested by M. Fahim Khan, Acting Director of Research, IRTI, IDB, Jeddah, Saudi Arabia. I would like to thank him for pointing this out in an earlier draft of the present paper.

would extend a wage subsidy directly to workers via the *bayt al māl* (the national treasury). Employers will pay workers according to the marginal productivity principle and the difference between the minimum wage rate and the marginal revenue product will be paid by the state. In either case, the minimum wage rate policy becomes functional in such a way that the principle of efficiency is not hurt.

The role of the market mechanism in determining wages begins above the level of minimum wages. Islamic teachings influence this process through the forces of supply and demand. On the supply side, the institutions of *zakah*, voluntary *ṣadaqah*, and the *bayt al māl* tend to strengthen the bargaining power of workers to a considerable degree.<sup>50</sup> Making use of these arrangements, workers will not be forced to accept a wage rate lower than their private opportunity cost of leisure time. Technically speaking, this means that the labor supply curve will have a vertical intercept located at a higher point than would be the case in the absence of these institutions.

On the demand side, Islamic teachings tend to enhance the physical productivity of workers, as argued above, by reinforcing their morality. It is thus plausible to assume a higher labor productivity level per unit of time in an Islamic framework than one would find in a secular framework. Higher labor productivity, in turn, has favorable implications for workers, for this development enables a firm to pay either a higher real wage for the same amount of labor or to employ more workers at the same real wage rate.

The foregoing arguments can be illustrated and better understood with the help of the following diagram.



<sup>50</sup>For an excellent exposition of this point see M. N. Siddiqui, "Guarantee of a Minimum Level of Living in an Islamic State." In *Distributive Justice and Need Fulfillment in an Islamic Economy* (Pakistan: IIIIE and International Islamic University, Islamabad, n.d.), 249-90.

The horizontal axis measures the number of workers employed by a firm, and the vertical axis measures the real wage rate. DL and SL and DL<sub>I</sub> and SL<sub>I</sub> are curves representing the demands for labor and supply of labor for the secular and the Islamic frameworks respectively. As can be seen, it is possible to have a higher wage rate and a higher level of employment in an Islamic framework relative to a secular framework. The real wage rate is higher, as shown by the vertical distance  $W_2-W_1$ , and employment is higher, as shown by the horizontal distance  $E_2-E_1$ .

## Conclusion

This paper has formulated an Islamic framework that can be used to regulate the employer-employee relationship in an Islamic economy. The framework is based on three institutions: *ukhūwah* (brotherhood), *‘adl* (justice), and *iḥsān* (benevolence). The roles of these institutions tend to establish harmonious, peaceful, and healthy relationships between the two groups.

Using this framework, an Islamic approach to wage compensation has been suggested. It identifies two ingredients: equity and efficiency. To meet the equity requirement, a minimum level of real wages is suggested. In no case is the wage rate allowed to fall below the minimum level, for the state will monitor all of the relevant factors. This rate is defined on the basis of an employee's basic needs.

The efficiency implications of a minimum wage policy have also been examined, and the conclusion was drawn that such a policy is workable without adversely affecting the efficiency principle. The amount of money that should be paid to a worker in order for him/her to meet his/her own and family needs is paid by the *bayt al māl* (public treasury) or as *ṣadaqah* if it exceeds the value produced. Such a wage subsidy is given to workers directly.

The paper has argued that actual wage rates, when above the statutory minimum wages, are determined by the forces of supply and demand. In this connection, the roles of *zakah*, *ṣadaqah*, and the welfare system on the supply of labor have been studied. Similarly, the moral system's effect on the physical productivity of workers was also investigated. The paper concludes that the particular effects operating through the supply and demand forces tend to generate a favorable outcome, both as regards the real wage rate and the level of employment, for workers.

In short, workers' interests in an Islamic economy are protected by comprehensive legal and moral institutions. They enjoy brotherly treatment, an enhanced wage and salary structure, and more job opportunities. These factors tend to eliminate the major causes of industrial conflicts and thus promote industrial peace and social harmony.