

• ISLAMIC BUSINESS AND FINANCE SERIES •

Labor in an Islamic Setting

Theory and Practice



EDITED BY
NECMETTIN KIZILKAYA
AND TOSEEF AZID

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ROUTLEDGE

Labor in an Islamic Setting

The Islamic labor market rests on the principles of the free market exchange of Islamic economics. Regrettably, the latter has failed to keep pace with the rapidly growing academic and professional developments of the former. Much of the published work within Islamic economics is idealistic if not radically ideological with little relevance to the Islamic labor market, leaving students of Islamic economics without a coherent body of economic theory to understand the practical objectives of Shariah that gives a sense of direction to the developments in this field. Drawing upon received sources of goals of Shariah, the authors present an independent academic work which:

- Emphasizes the common conceptual grounds of labor market behavior shared by the objectives of Shariah approach as well as the conventional approach to economics.
- Adopts standard tools of contemporary economics to explain the industrial relations.
- Extends the conventional scope of the labor market and forces of the labor market under the umbrella of Shariah.
- Enables readers and practitioners of Islamic economics to make economic sense of Shariah compliance and human resource development.
- Explains how the economics of Shariah is liable to offer moral guidance and a sense of direction to regulators and practitioners of the Islamic labor market.

Labor in an Islamic Setting will be of interest to postgraduate students, academics, middle and senior management in both the western and the Islamic business communities, researchers and policy makers.

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Contents

<i>List of illustrations</i>	vii
<i>List of tables</i>	viii
<i>List of contributors</i>	ix
<i>Preface</i>	xii
1 Introduction	1
TOSEEF AZID AND NECMETTIN KIZILKAYA	
2 The labor market in an Islamic setting: review and prospects	6
TOSEEF AZID	
3 The division of labor and its theoretical foundations: comparing Ibn Khaldun and Adam Smith	27
YASIEN MOHAMED	
4 A critical examination of the concept of “human capital”: the perspective of Islamic economic jurisprudence	46
ZEYNEB HAFSA ORHAN	
5 The concepts of labor, workers’ rights, and migration in Islam	55
LATIFE REDA	
6 The test of Islamic sensibility with poverty: the state and women workers in the last period of the Ottoman Empire	70
KADIR YILDIRIM	
7 Islamic ethics and migrant labor in Qatar	86
RAY JUREIDINI	
8 Inequality, the labor market, and economic growth in the MENA region: is governance the missing ingredient to alleviate the situation?	101
SIHAM MATALLAH, CHAIB BOUNOUA, AND MOHAMED BENBOUZIANE	

9	A progressive universal Islamic perspective on the free mobility of labor	116
	MUHAMMAD IQBAL ANJUM	
10	A comparative study of views and the role of labor in Marxian, mainstream, and Islamic economics	131
	SALMAN AHMED SHAIKH	
	<i>Index</i>	143

Illustrations

6.1	Physical arrangements in Istanbul's Cibali Régie factory for men and women to work separately	77
6.2	Problems caused by low wages of women in Uşak and Gödes regions	78
8.1	Inequality in MENA countries, 1996–2011	106
8.2	Employment (employment to population ratio, persons aged 15+, total (%)) in MENA countries, 1996–2013	108
8.3	Governance index (the simple average of six worldwide governance indicators) in MENA countries, 1996–2013	109
9.1	Positive correlations between indices of Islamic enlightenment (I_E), universal social harmony (H), the free universal mobility of labor/goods/services/capital/technology (Σ), and human development	122

Tables

3.1	A table of comparison between Ibn Khaldun and Adam Smith	40
6.1	Summary of consumer price indices	72
8.1	Empirical evidence on the link between inequality, the labor market, governance, and economic growth	104
8.2	Regression results for 10 MENA countries	112
8.3	Hausman test	112
8.4	Regression results for 10 MENA countries	113
10.1	A comparative view of labor-related issues in different economic systems	136

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Preface

It is rare to find “labor theory” in the title of Islamic economics literature as this has traditionally focused mostly on banking and financial economics. This dominant trend, perhaps, is well in order bearing in mind the pivotal issue of usury elimination in Islamic economics but labor economics should warrant equal importance. It is, apparently, the well-defined Sharia ruling on usury that has accounted for the predominance of financial concerns over labor market concerns in the current literature of Islamic economics. Admittedly, there is hardly any clear-cut jurist ruling about labor economics comparable to the position against usury apart from the Islamic moral values embedding fair treatment of labor in terms of wage rate, work conditions, and humanitarian rights. Yet, it is precisely the moral dimension rather than jurist rulings that distinguishes the role of an Islamic economist from the role of a jurist scholar, and this applies equally well to capital markets and labor markets. The adverse economic consequences of the unfair treatment of labor should trigger the same deep concerns as the adverse consequences of usury in the capital market from the viewpoint of Islamic economics.

This book – *Labor in an Islamic setting: Theory and Practice* – is therefore a groundbreaking contribution to Islamic economics, thanks to the organizers and sponsors of the Islamic Economics Workshop III, held in Istanbul, Turkey under the theme “Labor in Islamic Economics.” Furthermore, it is a timely contribution in light of the phenomenal migration of labor that has lately preoccupied the world economy and threatened to change the demographics of the Western world. Thus, the book sets out to fill in a significant gap in the current literature. It furnishes a well-balanced spectrum of topics in labor economics from an Islamic perspective consisting of 10 chapters, ranging from comparative analysis between rival socialist and capital systems, to more practical issues involving female labor and a critical outlook on labor regulations from an Islamic perspective. Perhaps researchers may find more outstanding questions deeming further inquiry than final answers to the problems and this is, in its own right, a commendable feature of this book. Teachers should find it a particularly useful reference text in developing their own modules on Islamic economics, whether at university intermediate level or graduate level.

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Introduction

Toseef Azid and Necmettin Kizilkaya

The Qur'an and the Sunnah of the Prophet Muhammad emphasize on the dignity of human beings. Highly renowned Muslim scholars such as Abu Hanifah, Abu Yusuf, Shafi'i, Ibn al-Rushd, al-Ghazali, Ibn Taymiyyah, and Ibn Khaldun relied upon that point and considered human beings the most important factor in the production process. However, the pricing process of human services does not follow the same standards that we have for the pricing of commodities. Islamic/moral norms play a very significant role in determining the prices of the different factors of production. Islamic norms such as brotherhood, honesty, mutual cooperation, justice, and fairness are the main ingredients, besides market forces, in determining wages. Over the past decades, much academic effort has been put into the field of Islamic finance. However, the most vital area, the labor market, has been ignored by most Muslim economists. In light of this, the Islamic Economics Workshop III was held in Istanbul, Turkey, on April 4–5, 2015, under the theme of "Labor in Islamic Economics." The Association for Science Culture and Education (ILKE), the Scientific Studies Society (İLEM), the Association of Entrepreneurship and Business Ethics (İGIAD), and the Istanbul Chamber of Commerce organized the workshop in collaboration with Istanbul Commerce University. A large number of international scholars from all over the world presented their papers in the workshop.

Labor is the most important concept in economic theory and economic history. The consensus among economists and sociologists is that the design of production, distribution, exchange, and redistribution is not possible without considering the factors of production separately. For this reason, the factors of production are counted in modern economics as labor, capital, natural resources, and entrepreneurship, and labor is ultimately considered the most significant of them all. The reason for this is that labor is directly related to human beings. If the human constituent were to be removed from the picture, other factors would no longer carry any meaning or purpose. This central role that labor plays in economics has been widely acknowledged and further marks the starting points for both Marxist and capitalist economic theories. Thus, classical/liberal economists such as Adam Smith and David Ricardo placed the labor theory of value at the center of their own approaches. Similarly, Marx's basic criticism of capitalism has its source in labor/value discussions; he emphasizes that the principal power of the working class is labor, further affirming that in a capitalist society the labor is turned into a commodity.

The word "labor" has extended to contain an array of meanings, which include human muscle strength and certain types of intellectual activities. Since the rise of classical economic theory, technological developments have indeed diversified today's discussion of the issue

of labor. Yet, from the very earliest period of economic history, the concept of labor has been studied in close relation to the notions of production, capital, and income distribution. Economists who had different approaches consequently interpreted labor in different ways. Today, the globalization of the world economy and various utilizations of labor beyond the workforce have increased the importance of the concept known as the “exploitation of labor.” Therefore, the definition of labor by today’s economies and international companies, together with the identification of the correspondence of this definition, have a particular importance in modern debates on the economy.

In this context, how have the position and the definition of labor as a part of the total factor of productivity, which are also a part of the supply chain on a global scale, developed in different economic systems and geographies? Alongside this main issue, what is the current situation in the Muslim world?

Particularly in the area of economic governance, the perception of primary agents (e.g. governments, companies/producers and consumers) on labor stands to be an important issue in the case of existing companies and their commercial activities in the Islamic world.

During the discussions in the workshop, a number of issues related to labor economics were highlighted, including labor migration, comparative labor theories, labor markets, mobility of labor, labor value, ongoing problems concerning labor, Islamic law and labor, current debates on labor, alternative wage implementations, and the significance of work in Islamic understanding.

In the first of the papers in this volume, Azid takes labor to be the basic source of value as discussed by Ibn Khaldun and discusses how labor as a factor of production is dealt with in Islamic economics. Azid claims that the role of justice, fairness, equity, and brotherhood spreads prosperity among workers in the Islamic economy. These norms not only improve economic conditions but also create harmony in society. This paper explains the cornerstones of the labor market within the Islamic framework, i.e. righteousness, avoiding damage/loss/difficulty, and values relating to the judicious use of resources, avoiding waste, and spending for others. The main objective of every action under the umbrella of Islam is to please Allah (SWT). And, moreover, all actions are based on benevolence and altruism. Demand and supply as market forces are important but these are dependent not only on wage rates but also on the other moral and ethical norms of Islamic society. The paper also mentions the child and female labor force and suggests that in special circumstances child labor is allowed. It also explains that flexibility of wages is not a new phenomenon; wages depend on the economic conditions of an economy. The demand for human capital is based on the state of the technology of the economy. Al-Ghazali discussed the reservation wage and its economic consequences many years before Stigler. Azid’s paper also discusses the economics of the family and how it affects the labor market in the Islamic economic framework. At the end this paper, the importance of the role of the state in regulating the labor market is presented.

The next paper compares the economic thought of Ibn Khaldun and Adam Smith. In modern societies, the production of luxury goods is central to our endeavors and we measure the quality and progress of our civilization by it. We therefore measure our happiness in terms of the acquisition of these material goods, not the goods of our character. Many modern thinkers regard this to be an innate propensity of human nature. Adam Smith, the eighteenth-century author of *The Wealth of Nations*, holds that people are born to spend for their momentary pleasure, and also to save to improve their material conditions, which is embedded in them from the womb and “never leaves them till they go into the grave. . . . An augmentation of

fortune is the means by which the greater part of men propose and wish to better their condition” (Smith 1976a, vol. I, 279). However, Smith maintains in his *Theory of Moral Sentiments* that, on the one hand, the desire for material betterment drives economic growth but, on the other hand, it disrupts people’s tranquility. This drive for material prosperity leads people to cooperate with others through the division of labor. Four centuries before Smith, Abd al-Rahman Ibn Khaldun, the north African sociologist, held that the division of labor increases production and profits. This chapter compares the views of these two thinkers with respect to the division of labor and the social and philosophical contexts that shaped their ideas. Ibn Khaldun lived in a tribal society characterized by *asabiyyah* (social solidarity), while Smith lived in a market society characterized by self-interest.

The third paper discusses the concept of human capital in the Islamic framework. The term “capital” had existed long before capitalism, but it was exposed to a major transformation by the emergence of it because, as the engine of capitalism, industrialization changed the way that economists evaluated and defined economic development as well as the concepts attached to it. In this way, the meaning of capital shifted from “monetary finance” to “the means of production.” In time, its meaning widened even further and started to include “anything which is helpful to produce an economic value.” Today, the concept of capital also includes neo-capital concepts, such as human capital, which have been encountered more often since the 1960s. In general, what is meant by human capital is any attribute pertaining to human beings in producing economic value.

Islam is a religion which provides a worldview that is compatible with the divine. Such a view includes how to evaluate and conduct economic affairs, how to build economic relations, and so on. This was also the starting point of the discipline of Islamic economics in the twentieth century.¹ Despite there still being no consensus regarding its definition, Asad Zaman (2013) defined Islamic economics as: “the *effort/struggle*² to implement the orders of Allah pertaining to economic affairs in our individual lives (micro), in our communities (meso), and at the level of Ummah (macro).” This definition underlines the importance of the three main levels at which Islamic economics can be applied. It can be added here that the cornerstones of Islamic economics are Islamic jurisprudence and Islamic ethics.

Latif Rida discusses the issue of migration, aiming to set the basis for the study of the evolution of the concept of migration and the socioeconomic aspects of the religious concept of *hijra* (migration). The research draws on the sources of Islamic law and doctrines related to labor and the rights of workers, keeping in mind the modern standards of the regulation of employment and workers, both national and migrant. The paper then discusses classical religious interpretations and applications of *hijra*, and points to the question of how *hijra* was redefined by modern Islamic thinkers with the advent of Muslim migration for labor to non-Muslim lands. The objective of this paper is to set the foundations for an understanding of the regulation of labor and, by extension, labor migration, as actual national labor laws in Muslim-populated countries that apply to both national and migrant workers lack many of the basic elements of an appropriate system of labor regulation.

In the next chapter, the female labor force is discussed in the context of the Ottoman Empire. The nineteenth century is considered an age of reform for the Ottoman Empire. The empire, which tried to find a solution to its backwardness in comparison to Europe, started an attempt at industrialization led by the government. Because production units in the private sector increased together with state-operated factories, the industry sector strengthened in areas such as Istanbul, Salonika, Izmir, and Bursa. Initially limited to the hinterlands of these regions and then spreading to the countryside, commercial production spread over time. As a

natural result of this industrial development, waged labor and the number of women joining working life as laborers also increased.

As female labor increased in the industrial sector in the Ottoman Empire, displeasure occurred against it both in the state bureaucracy and in various parts of society. The state approached women's work in a negative way, prioritizing Islamic sensibilities. In commands sent to regions such as Isparta, Bursa, Uşak, and Kastamonu, it asked that women should not work with men and that Muslim women's work in Christians' businesses must be precluded. Nevertheless, similar commands sent in short ranges showed that this state sensibility did not find a response in society. Thus, despite all the demands and precautions of the state, it is seen that women's labor has increased since the 1900s. As economic necessities forced women to work as waged labor, religious sensibility remained frustrated.

In this study, the spread of female labor and, in particular, the rise in the number of Muslim women workers are discussed within the context of the clash of religious sensibilities and economic necessities through the Ottoman study. How society and state approached the rise of female workers in Muslim society and how efficient these approaches were for each side are discussed. Through a reading of Ottoman archives and periodicals of the time, the expansion of female labor and the effects of the rise of economic pressures with wars on religious life are evaluated.

The next chapter explains how Islamic ethics, such as the opposition to usury, the proper and timely payment of wages, and the treatment and protection of labor, are being challenged in many Arab states that employ migrant workers from Asia. Some suggestions are given for the improvement of the situation of the migrant workers.

Siham *et al.* seek to clarify and evaluate the impact of inequality and labor market on economic growth in the MENA region by zooming in on the role of governance in 10 MENA countries (Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey, and Yemen) over the period 1996–2013. This chapter presents the theoretical background and empirical indicia relating to the inequality–employment–growth triptych and the role of governance and discusses inequality, employment, and governance in the MENA region in order to determine the current Arab position and conduct a feasibility analysis; it also draws some policy implications.

Iqbal's paper portrays a uniquely progressive universal Islamic perspective on the free mobility of labor in light of Islamic teachings. It highlights a uniquely immense potential of institutionalizing the free mobility of labor on the global level in the framework of a universal Islamic Common Market envisioned to be established by Khilafaul Khulafa (a central Islamic government of all regional Islamic governments, proposed by Shah Waliullah), extending inside its territorial jurisdiction and (if strategically possible) outside its territorial jurisdiction, along with the supporting central institutions of the Islamic Monetary Authorities Network (IMAN) and the Islamic Treasury. This paper presents a unique Islamic view of humans as global citizens and highlights the nature of the Islamic Common Market as a progressive vehicle institution for ensuring the free, universal mobility of labor/capital/goods/services/technology. Moreover, it presents an empirical insight into several contemporary Islamic countries' serious macroeconomic problems of unemployment, poverty, and low human development, which are partly due to the nonexistence of the institution of the Islamic Common Market (ICM), and an Islamic economic rationale for instituting the ICM. It ends by identifying potential progressive macroeconomic effects of efficient free global labor migration in a framework of ICM – a significant increase in personal income/consumption/global employment/global trade/investment, improved personal and functional income distribution, poverty alleviation, and a decline in inflation etc.

Shaikh's paper comparatively analyzes the views and role of labor in Marxian, mainstream, and Islamic economics. It argues that the Marxian view of labor undermines the role of the entrepreneur. Indeed, the slave trade, industrialization, and colonialism resulted in exploitation of labor. But, to correct matters, undermining the role of the entrepreneur to the extent of abandoning private property rights is not the right solution either, as has also been proved in the later part of the twentieth century. Nevertheless, mainstream economics, too, is unable to create an equitable balance between capitalists and the labor class, especially in the presence of extractive institutions like interest-based earnings on accumulated wealth and incapacitated wealth redistribution mechanisms. These extractive institutions perpetuate the dominance of wealthy capitalists by making their accumulated wealth immune to entrepreneurial risks. This also results in the concentration of wealth, an increase in income inequality, and low levels of capital formation. Indeed, recent evidence of unemployment growth, high youth unemployment despite high per capita income, and high income inequality supports this view. In the Islamic economic framework, the prohibition of interest encourages productive enterprise and capital formation. These factors boost the labor demanded by firms. At the microeconomic level, in the consumption–leisure choice framework, Islamic institutions positively boost labor supply. In an Islamic economy, wealth redistribution through *Zakat* and inheritance laws ensures the circulation of wealth. The prohibition of interest closes the door to riskless nonlabor income on money capital. This increases the cost of leisure and encourages the person to supply more labor and/or invest money capital in productive enterprise. Finally, we discuss the impact of Islamic work ethics on dealing with the problems of moral hazard, labor shirking and rigidity in the labor market due to efficiency wages and insider–outsider relationships.

All of these papers suggest that improved human resources in the moral and ethical environment reduce the degree of poverty and increase satisfaction levels. Taking their insights together, we learn that the best way to treat workers is on the basis of Islamic norms, i.e. brotherhood, justice, fairness, honesty, equity, and other moral norms mentioned in the Qur'an and observed from the practices of the Prophet (pbuh). The smart observation is that the first principle of the labor market should be to provide an environment of justice, equity, brotherhood, honesty, trust, and fairness rather than injustice, enmity, selfishness, and so on. This environment increases the efficiency of production and increases workers' abilities under the umbrella of Islam.

Notes

- 1 Here, we will not go into detail regarding the discussions of whether economics can be described as Islamic or if an Islamic economics is possible. Furthermore, the reasons of why this discipline emerged as late as the twentieth century necessitates separate research. For further reading in the history of Islamic thought in economics, and in Islamic economics, see El-Ashker and Wilson (2006).
- 2 The italicized written words belong to Zaman himself.

The labor market in an Islamic setting

Review and prospects

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In the conventional setting, despite its heterogeneous nature, labor services are considered one composite commodity with a single price. By assumption, the demand for these services originates entirely from the firms of the economy. It is assumed also that a firm constructs a production function which specifies the given technological relationship between its inputs and the resulting outputs of the commodities.

On the other hand, by assuming that working hours are roughly the same for all firms but that working conditions differ from firm to firm, workers will be able to choose between alternative job opportunities offering different combinations of income and leisure. The quantity of effective labor force offered on the market by a consumer is responsive to the income and substitution effects associated with consumption–leisure choices. Both the demand for labor and the supply of labor will determine the market mechanism of the labor market; these converge to the equilibrium wage rate (Ashenfelter and Layard 1986; Hicks 1963; Mincer 1974).

Islam considers human beings to be much more than a simple commodity. Yet, it is true that people do rent out their services for a price and, of all prices, labor is by far the most important. For a large majority of the population, wages are the sole determinant of family income. The human being is the sole supplier of labor services and his/her service is an inseparable attribute of him/her. He/she is the vicegerent and the best creation of God, created for a noble objective. Justice, humanity, and altruism play very important roles in the determination of the price of labor. A reasonable number of attempts can be seen in the literature on Islamic jurisprudence to discuss the nature of labor and its market and the determination of wages; see, for example, al-Ghazali, Ibn Tayyimiyyah, his student Ibn Qayyim, Ibn Khaldun, Shah Waliullah, and many others.

Section I

An overview of the labor market and its mechanism in a conventional setting

The most important parties in the labor market are the suppliers (workers) and the demanders (employers); their interaction is the most important function of this market. The labor market deals with the most important variables of the economy, such as income, wages, and employment. A number of theories have developed several significant concepts: human capital, skill, and unskilled labor force. The determination of the wage rate is dependent on the market

forces of the labor, i.e. supply and demand. In a micro sense, the wage rate is based on the workers' marginal productivity. Wage and wage rate are sometimes used interchangeably.

1.1. Two ways of analyzing labor markets

Labor economics are discussed by theorists from two perspectives: the micro and macro dimensions. Classical and neoclassical theories discuss labor in the sense of the micro-economics of the labor market and the wage rate is treated as the equilibrium point of the market. Microeconomics dimensions discuss the behavior of the individual unit of the economy.

By contrast, macroeconomic techniques look at the interrelations between the labor market, the goods market, the money market, and the foreign trade market. Moreover, they discuss the macro variables, i.e. gross domestic product, inflation, unemployment, aggregate demand, aggregate supply, consumption, and investment. Keynesian economists discuss the Phillips Curve, which shows the relationship between wage rates and unemployment. Aggregate demand is an indicator of depression, recession, recovery, and prosperity. Aggregate expenditure (AE) is equal to the sum of consumption spending (C), investment spending (I), government spending (G), and the net of exports minus imports (X-M). Formally it can be written in an equation as $AE = C + I + G + (X-M)$. Later on, a number of socioeconomic models were developed in the literature of the labor market, however among them Marxian economics has its own significance.

Section II

The labor market and its mechanism in an Islamic framework

In this section an effort will be made to discuss the perspectives of different Muslim scholars about the labor market.³ According to Islamic philosophy, there is a unity of objectives in all activities of man on earth. All activities should aim at seeking one's well-being. The uniqueness in this objective comes from the fact that the well-being refers to well-being in this world and well-being in the world hereafter. Any well-being in this world void of well-being in the hereafter is by definition not well-being. It is instructive to note that any activity implying well-being in this world implies well-being in the hereafter too, provided that the activity is consciously carried out within the Islamic framework of beliefs, ethics, rules, and norms. The Islamic set of beliefs, ethics, norms, and rules is thus an integral part of a man's entire set of activities, including his economic behavior. All his economic choices in goods, money, and labor markets need to be done in this framework.

2.1. Cornerstones for the mechanism of the labor market in an Islamic framework

In the Islamic framework, some significant characteristics are part of each and every market. Among them, the most noteworthy characteristics are as follows:

- i) Righteousness.⁴
- ii) *Ihsaan*.⁵

- iii) Doing the right things and escaping from the wrong things.⁶
- iv) Maintaining justice in the utilization of human and physical resources.
 - a. Avoiding waste (*israf*)

Israf literally means a waste of resources. Islam strongly requires Muslims not to waste any resources. This is probably the most important indication that a rational man is required not to follow simply his own desires but instead to go by his defined needs.⁷

- b. Spending for others (*infaq*, *sadaqaat* and *qardh hasan*)

Infaq means spending to meet the needs of the others, not as a favor to others but for the sake of reward from Allah.⁸ *Sadaqaat* includes, besides *infaq*, any act to help reduce hardships for fellow beings. Meeting their consumption needs is a very desirable form of *sadaqaat*.⁹ *Qardh hasan* means a benevolent loan. It refers to meeting the needs of fellow beings for the sake of Allah. It becomes a loan to Allah and he rewards it many times over.¹⁰

2.1.1. Mechanism of the labor market

In this section, keeping the above four principles in view, an effort will be made to analyze the ethical–moral–economic behavior of the labor market within an Islamic framework.

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 people's charity, then it is preferable that he should engage in earning his livelihood.

(Ghazanfar and Islahi 1997, 13–14).

According to Muslim jurists, each and every market under the umbrella of Islamic jurisprudence has its rules, principles, moralities, values, and ethics.¹¹ It is the duty and responsibility of each and every economic/social agent to try to get knowledge of the objectives of sharia.¹² However, it should be noted that Islamic knowledge is based on the clear distinction between right and wrong. Market forces should follow the basic principles of Islam and the only intention will be to please Allah (SWT)¹³:

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 sharia. 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, 22)¹⁴

In the Islamic periphery, the intention is more important and all the doings in the world have positive or negative rewards in the life hereafter, and this is the basic objective and aim of each and every Muslim. Ghazanfar and Islahi (1997, 22) quoted al-Ghazali in the following way:

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.

Al-Ghazali classifies some groups who are not directly involved in economic activity, who perform social, cultural, and religious functions for the welfare of the society. These groups are as follows:

- i) Those who are engaged in physical worship.
- ii) Those who are engaged in religious teachings, preaching, and guidance.
- iii) Those who are working for the government or who are civil servants.

According to al-Ghazali, in this situation it is the duty of the state to support them for the services that they are providing to society.

Al-Ghazali mentions some guidelines for the functioning of the market (Ghazanfar and Islahi 1997):

- i) The seller should not charge excessive prices.
- ii) The buyer should behave differently and should be sufficiently nice and kind, particularly when the seller is not very rich (the same is expected of employers when they are dealing with workers, especially those who are not skilled, and wages should be determined in a benevolent way).

Al-Ghazali discussed the norms of the market and the environment of competition and cooperation. He put more emphasis on cooperation and coordination among the different agents of the market than on competition. However, he also appreciated competition because competition among market agents maintains balance in the market. Ghazanfar and Islahi (1997, 26) stated that al-Ghazali considered that, “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”¹⁵ (Ghazanfar and Islahi 1997, 26).

Azid and Asutay (2007) discussed this 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 toward the higher level of social well-being function.

(p. 161).

Ahmad (2003, 195) explained that, in the Islamic system, the market mechanism is based on competition alongside the moral norms of the system. Ibn Tamiya and his student Ibn Qayyam take the view that, in the Islamic system, the labor market should follow the same rules, principles, and regulations as are implemented for the goods market (Islahi 1984; 1988).

Joskow (2002) and Pittaway (2005) believed that consensus among the economists is that it is hard to believe that every market agent has complete knowledge of the future events of the market. Keeping that in mind, different market agents (owners, management, employees) are involved in contracts and agreements, which become the main cause of the failure of the market mechanism. However, Muslim economists believe that, under the umbrella of Islam, the market works very efficiently because the element of moral values complements economic values.

2.1.2. *Supply of Labor*

In this section we will try to present the opinions of different Muslim jurists related to the different corners of the supply of labor in the setting of the Islamic labor market. As is mentioned in the literature, labor supply has three main components: time, efficiency, and number of workers. In the following discussion we will try to see how these are discussed by Muslim jurists.

There is consensus among Muslim jurists that a rational Muslim (who is also a wage earner) has the following religious responsibilities:

- i) Earning for his subsistence level (this is a minimum level).
- ii) Providing the basic necessities for his family.
- iii) Earning for the needy of society.

If any member of the society does not put his efforts into performing the above-mentioned responsibilities, then, according to al-Ghazali, that person is “religiously blameworthy”; he further elaborated that, if the trend of the society is just to earn only for its survival (*sadd al ramaq*), then there will be chaos in society and the economy. It has an impact on the worldly life as well the life hereafter.¹⁶

He describes those individuals who succeed/fail in each of their lives. He categorized them as:

- i) Those who are failures, i.e. those who are heavily involved in worldly affairs and ignore the life hereafter.
- ii) Successful people, i.e. those who strive only for the life hereafter and who give up this world for the life after death.
- iii) The achievers of salvation, i.e. those who follow the rules and regulations of sharia and spend their lives in a moderate way (Ghazanfar and Islahi 1997, 8).

The third category is the best in the eyes of al-Ghazali. In his opinion, a person is successful if he obeys the orders of Allah (SWT) and at the same time is efficient in his work and honest

in his duties.¹⁷ It can be concluded from al-Ghazali's analysis that it is obligatory for Muslims to increase their labor time and become efficient. Incidentally, honesty is greatly emphasized in this system.

Shah Waliullah discussed the supply of labor in the same way as discussed by his predecessors. In his opinion, one should earn for the fulfillment of ones' needs and not become a burden on others; becoming a beggar should be earnestly avoided. He further added that for a prosperous society it is necessary that people earn for themselves and they fulfill their needs (livelihoods) through their own earnings. According to Shah Waliullah, it is the will of Allah (SWT) that one has to earn and look after his family members. He further added that a developed and well-off society has a positive impact on the moral and ethical standards of the society. In his opinion, wealth plays a positive role in God-fearingness. For a pious person, the earnings which he has earned by fair means are the best.¹⁸ However, in his opinion everyone should put efforts into that work which suits his own environment. Shah Waliullah explained that delayed payments from employers and the existence of interest on loans are the main causes of increased inefficiency of labor.¹⁹ It is interesting to note that Shah Waliullah also discussed the theory of search. He said that "*Al Hikmat al Iktisabiyah* or the wisdom of earning a livelihood" is based on the expertise, knowledge, taste, abilities, and skills of the worker. He added that every person should choose that job which accords with his requirements and matches his abilities. He recommends that in the selection of profession one should not follow the profession of one's family and forefathers if that does not suit one's abilities, knowledge, and other factors (Abdullah 2005; Islahi 1990; Bashir 1994).

Azid and Asutay (2007, 165) concluded the above as:

The motives of the producer can be underlying as: s(h)e has to earn profit but as a human being. However, other objectives are also important, such as looking after the interest of others, improvement in the material, moral and aesthetic terms of the society, production of the essential goods and services (duty), and provision of employment and as a trustee motive of profit maximization is not so important.

(Qur'an, 18: 46)

So this will enhance the supply of labor in the economy.

2.1.2.1. GENDER, CHILD LABOR AND WORK IN ISLAMIC SOCIETY

There is a serious lack of substantial literature that offers Islamic perceptions of social choices and welfare in the setting of the gender division of labor and child labor (which has particularly not been discussed by traditional Muslim jurists). Hassan (1994) argued that Islam permits women to work in economic activities and also to run their own businesses as entrepreneurs. Syed and Ali (2005) mentioned the example of Khadija (pbuh), the wife of the Prophet Muhammad (pbuh), who was a successful entrepreneur. Hussain (1987) elaborated, however, that there is a clear-cut difference between the responsibilities of men and women because it is the religious responsibility of the male to provide the necessities for his family and progeny. Syed (2006) applied the "Sen's capability approach" and "adaptive preferences." He takes the view that it is necessary to include the "eternal well-being" besides the "material well-being" whenever we try to develop the "model of capability." In Syed's opinion, Islam builds the family as a strong unit and considers it the basic unit of society. If the base of the society is strong enough, then the building will also be sound and

solid. It is the religious duty and responsibility of every member of society to learn knowledge about the market and participate actively in economic activities. Men and women both have the same status in the above context. Syed further added that families should specialize in the different professions, which leads to the promotion of economic/social development and economic activities. It means that variations in the different professions promote the welfare of the society.

It is an established fact in Islamic society that children should enjoy their lives: they have to play; they have to entertain themselves; they have to receive education and to undertake training for the different skills that allow them to spend a good, successful, and reasonable life. However, sharia scholars suggest that children can be involved in physical work, which should reflect the abilities and capacities of the children but should not be overtaxing. However, it is also appreciated if children help their fathers and family in economic activities, especially when families are not rich. They also suggest that, in this situation, government support for the family would mean that there would be no need for children to participate in economic activities (Sheikh Yusuf Al-Qaradawi²⁰ and Dr. Abdel-Fatah Idrees, professor of comparative jurisprudence at the Faculty of Sharia and Law, Al-Azhar University²¹).

2.1.3. Demand for labor

Most Muslim scholars – for example, al-Ghazali, Ibn Taiymia, Ibn Khaldun and Shah Waliullah and many others – agree that God-fearingness (*taqwa*) significantly enhances the demand for labor in an Islamic economy compared to a conventional economic system. This is because a Muslim worker works honestly and efficiently to increase his marginal product of labor, and hence shifts the demand curve of labor to the right. According to the jurists, entrepreneurs can help the needy through providing them with employment instead of giving them charity. This is considered a socially obligatory duty (*fard kifayah*).²² Similarly, he should execute all of these activities for a noble cause and not just for self-interest. As a Muslim, an entrepreneur should always keep in his mind that he is accountable to Allah (SWT) for all of his actions/activities. And these resources should be allocated for the growth of the necessities as well as for the growth and development of the society/economy.

Ibn Taimiyah used the indirect approach regarding the demand for labor through the import of goods and services. Islahi (1986, 52) expressed this as:

Ibn Taimiyah mentions two sources of supply of goods – local production and import of the goods demanded [*ma yukhlaq aw yujlab min dhali'k al mal al matlub*]. “*Al matlub*” is the synonym of the word “demand” in English. To express demand for a good he uses the phrase “*raghabat fi'l shai'*”, i.e. desires for the good. Desire which reflects need or “taste” is one of the important determinants of demand, the other being the income. This second factor is not mentioned by Ibn Taimiyah. A change in supply, the other market force besides demand, is described by him as an increase or decrease in the availability of the good.

It is worthwhile to note that Shah Waliullah does not recommend unemployment allowances. Those who are rich should not promote begging but should find ways to increase employment (Abdullah 2005). From the literature described in the previous sections and the teaching of Islam, the utility function of the workers/employees can be developed as (Akhtar 1992):

$$U = \{(Divine \text{ will}, Master's \text{ Pleasure}, Wages, Effort), (e, LeA), (No \text{ Shirking})\}$$

Where e is the effort level of the employee and LeA is the required level from employer.

As Akhtar (1992) expressed, the “utility of an employee is a function of Allah’s will, master’s pleasure, wages and effort level.” He stated that divine will and master’s pleasure are not the ingredients of the secular utility function. So, in conventional settings, employees do not work with full sincerity and they shirk tasks whenever they find any loophole in the system. Whereas, on the other hand, Muslim workers always try to please Allah (SWT) and also want to please their master (as they consider this their religious duty); they also know that they have to fulfill their duty because they are accountable to Allah (SWT) for all of their actions. So they fulfill their contracts and also work and try to complete their tasks very efficiently. And, furthermore, this is their duty to look after and protect the property of the employer.

2.1.3.1. DEMAND FOR LABOR AND HUMAN CAPITAL

In an Islamic labor market, the skill of labor is not considered in the same way as in a conventional economic system. Al-Ghazali asserts that those who have different skills and perform well in the economic activities are the successful people as mentioned above, i.e. those who achieve success in both of their lives, in this world and the hereafter. Allah (SWT) blessed humanity with different types of professions and occupations and blessed the people with different skills so that they will be able to choose different professions/occupations and be able to participate in economic activities. The Prophet Muhammad’s (pbuh) saying is: “difference of my people are blessing” (Ghazanfar and Islahi 1997, 25). We can conclude that the demand for different skills for different professions and economic activities has an impact on the growth of the economy and society and this is a blessing from Allah (SWT) (Ghazanfar and Islahi 1997, 25).

Imam Taymiyyah has discussed the following points regarding the demand for human capital:

People’s desire [*al raghabah*] is of different kinds and varies frequently. It varies according to the abundance or scarcity of the good demanded [*al matlub*]. A good is much more strongly desired when it is scarce than that when it is available in abundance.

(Islahi 1986, 53)

It can also be interpreted in terms of skilled labor force.

Al-Jahiz explained the phenomenon of supply and demand in his famous work *al-Tabassur bi'l-Tijarah (The Insight in Commerce)*: “Everything becomes cheaper if its amount increases except knowledge as its value is enhanced if it increases” (al-Jahiz 1966, 11–12).

Azid (2005) summarized this as: “In an Islamic 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). Islam appreciates skill and experience and permits hierarchy (Khan 1975). On the other hand, the concept that some families are born with preferential rights and the workman has to toil for these few families is unacceptable in any phase of social life (Qureshi 1959). Profit and earnings must reflect 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 everyone rather than a superiority in position (Tabakoglu 1983).²³ 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.

2.2. Wages

In an Islamic system, the price of labor is determined by market forces and in normal conditions there is no intervention from any authority. However, fairness in determining wages is more appreciated and justice is also required whenever the employer and employee fix the wage rate. There is a consensus among sharia scholars that the mechanism of the labor market should be based on the moral and ethical universal set of Islam and, similarly, the process of determination of wages should be based on the concept of brotherhood, generosity, fairness, and justice.

The saying of the Prophet's (pbuh) is narrated by al-Ghazali: "all creatures are dependents of Allah and the most beloved of them to Allah are those who are most beneficial to His dependents." So, when employers determine the wage rate they have to adopt the way of benevolence.

Al-Ghazali suggests a three-dimensional order of common utilities; "necessities [*darurat*], conveniences or comforts [*hajat*], and refinements or luxuries [*tahsinat*]" (Ghazanfar and Islahi 1997, 7). So one can conclude that the fixing of wages should be based on the minimum standard of living, which is *daruriyat* (necessities).

Ibn Taymiyyah has discussed in detail the determination of prices as well as wages, and from the analytical point of view this has great value. He applies expressions like "pricing in labor market" [*tas'ir fil-a'mal*], 'wage of the equivalent' [*ujrat al-mithl*] analogous to 'pricing in goods market' [*tas'ir fi'l-ammal*] and 'price of the equivalent' [*thaman al-mithl*]" (Ibn Taymiyyah 1976, 34). In his opinion, prices and wages should be clearly and fully defined among the parties. He added that, when wages and prices are not well defined, not certain, not well determined, and time is not known and not fully specified, then it may create an environment of gambling and uncertainty (Ibn Taymiyyah 1964, 103). At the time of Ibn Taymiyyah, it was customary that wages and prices be paid in kind. According to Ibn Taymiyyah, the

wage of the equivalent will be determined by the quoted wage [*musamma*] if such quotation exists, to which the two parties may refer, just as in the case of sale or hire the quoted price [*thaman musamma*] will be held as the "price of the equivalent."

(Ibn Taymiyyah 1963, Vol. 34, 72).

He asserted that if market imperfections persisted then a "wage of equivalent" would be determined as the "price of the equivalent" is determined. For example, if society demands the services of carpenters, iron smiths, or goldsmiths and they are not ready to provide these services because of market imperfections, then it is the duty of the state to fix the wages of the equivalent (Ibn Taymiyyah 1976, 34).

Ibn Taymiyyah argued that the intervention of the state prevents the exploitation of workers as well the exploitation of the employer. Both parties should play a fair game. He approves of the "just wage," i.e. that neither employer nor employee should exploit each other and that the employer should not pay less and employee should not demand more (ibid., 34).

Ibn Khaldun also describes the determination of wages in this manner, which is expressed by Spengler (1964, 298) as: "what increases the money cost of the worker's or merchants'

standard of life is or may be reflected in his supply price.” (Spengler, 1964, 298). At this, Spengler comments that

Ibn Khaldun’s statements suggest, however, that it is usually demand rather than supply that fixes the price of the labor, which, though it ought at least to furnish the “necessities of life,” often fails to do so in villages and hamlets where demand for labor is negligible.
(Islahi 2014, 42; Bashir 1994)

2.2.1. *Wages and norms of the labor market in the Islamic system*

According to Shah Waliullah, a man is responsible for his dependents and for other obligations related to Islamic values. Therefore, the role of justice will be primary in determining his wages and that of market forces will be secondary.

First, there should be a man-to-man, brotherly employer–employee relationship in overall behavior, not just a material relationship. Second, the workload and working conditions should be humanly acceptable; there is a limit to workload, even if there is none in the number of seedlings in a piece of land. Third, the employer must guarantee the basic needs of his brother employee (Bashir 1994).

2.2.1.1. FLEXIBILITY OF WAGES

Rise and fall in prices is not always due to injustice [*zulm*] of some people. Sometimes its reason is deficiency in production or decline in import of goods in demand. Thus if the desires for the good increase while its availability decreases, its price rises. On the other hand if availability of the good increases and the desires for it decrease, the price comes down. This scarcity or abundance may not be caused by the action of any people; it may be due to a cause not involving any injustice or, sometimes, it may have a cause that involves injustice. It is Allah the Almighty who creates desires in the hearts of people.

(Ibn Taimiyyah 1383, vol.8, 523)

And the same is true for the fixation of wages according to the degree of skills and based on the needs of society.

2.2.2. *Economics of the family*

It is worthwhile to note that unpaid labor does not receive much attention in most of the economic analysis. However, we can observe that unpaid labor plays a very important role in the development and growth of society and the economy, for example child-rearing, cooking at home, and serving family members. However, over the last 30 years, new literature has emerged related to home production, which is known as “family economics.” This literature is based on household decision-making, for example, child-rearing, fertility, and joint labor supply.

It is interesting to note that al-Ghazali explained the same and stated that it is some sort of family specialization, i.e. mothers and wives look after the family and are involved in household activities, whereas husbands and fathers earn for the livelihood of their families. He said that for the functioning of the family it is necessary that every economic agent should

specialize according to his abilities, which are gifted by Allah (SWT). Ghazanfar and Islahi (1997, 26) stated that, according to al-Ghazali, “if the husband were to look after all household duties, he would have wasted a lot of time and thus would not have time to devote to learning on and earning.”

2.2.3. Reservation wage

Holding fixed the job characteristics, Stigler (1961; 1962) and McCall (1970) discuss the reservation wage. They define it as the lowest level of wages accepted by workers. Generally, it is assumed in the literature that workers do not accept any wage rate lower than the reservation wage and vice versa. This worker strategy is known as the optimal strategy. The reservation wage is dependent on the nature of the job; it is not necessary that reservation wage be the same for every job. There is consensus that there will be a “compensating differential” depending on the type and nature of the job.

Al-Ghazali discussed the phenomenon of the reservation wage many years before Stigler and McCall. According to al-Ghazali, the reservation wage is not a value-less phenomenon and not just based on the forces of demand and supply. In his opinion, both sides of the markets are bound to consider the economic and social situation of the market. In al-Ghazali’s opinion, wages for mere survival or just maintaining subsistence level should not be assumed to be the norm of the society. However, if someone opts for it for himself and he is also satisfied then it is dependent on his wish and will. However, al-Ghazali does not appreciate it as a general norm of Islamic society. It does not mean that he supports excessive earnings and owning luxury material possessions. He supports moderate living and the level of earnings should not more than the reasonable standard of living, which he called *kifayah*, which should be sufficient for oneself and one’s family and be sufficient to provide the basic needs and necessities, i.e. food, clothing, housing, and others (Ghazanfar and Islahi 1997, 9).

Ibn Taimiyah elucidates the two changes separately as:

If people are selling their goods according to commonly accepted manner without any injustice on their part and the price rises due to decrease of the commodity [*qillat al shai’*] or due to increase in population [*katthrat al Khalq*], then this is due to Allah.

(Ibn Taimiyah 1976, 24)

Further, “administrative setting of too low a price that leaves no profit results in a corruption of prices, hiding of goods (by sellers) and destruction of people’s wealth” (Ibn Taimiyah 1976, 41). Later on, Shah Waliullah added that, therefore, minimum wage legislation may be adopted in an Islamic economy to guarantee the basic needs of employees subject to the condition that a minimally acceptable per unit profit will be left for entrepreneurship and capital. If this is not enough to satisfy basic needs, the amount of deficit will be paid from the social security funds developed by *Zakat* and other revenues meant for the relatively worse-off population (Abdullah 2005). One can conclude that, in determining the wage rate of labor, all economic agents must follow the basic normative principles, such as fair distribution, justice, brotherhood, honesty, equity, and generosity. In addition, as indicated earlier, there must be a sign of humanity.

However, in Islamic society the role of the firm is not only to strive for profit but also, as an economic and social agent, the duty of the firm is to fulfill its moral and ethical responsibilities. At the time of formulating their objective function, they have to incorporate social, cultural,

moral, and ethical variables besides the economic ones. Morrison (2000) stated that, at the time when any firm develops its objective function, it has to fix its social and moral targets as well as its economic targets. A limited number of studies have mentioned that only a few firms have incorporated these values in their objective functions. Further, only a few studies have incorporated religion as a variable in their discussions alongside other conventional variables. Anderson *et al.* (2000) analytically explain the role of religion in the developmental process of firms and also its impact on the culture and environment of firms. A number of studies, for example Sen (1993), Boatright (2002), Zaman (2005), and Mannan (1992), support the idea of the moral, ethical, and social responsibility of the firm and that this is the duty of the firm to its stakeholders while it is in the process of production and earnings.

Choudhury *et al.* (2006) and Azid *et al.* (2008) state that the Qur'an and the tradition of the Prophet guide humanity in how one has to spend one's life in this world and what one should strive for in the life hereafter. It is considered a universal set and this guidance covers all aspects of life – economic, social, cultural, religious, and political. Similarly, in the economic sphere it guides us in how to consume, how to invest, how to distribute, etc. It also guides us in how an entrepreneur should behave, how he should earn his profit; it tells us that he should earn a just profit, he should pay a just wage, and he should charge a just price: this is his responsibility to improve the welfare of society. Keeping the above in view it is suggested that he should include the above-mentioned variables in his objective function. It is recommended that the entrepreneur should include the above-mentioned four components in his/her objective function for the benefit of society (Choudhury *et al.* 2006; Azid *et al.* 2008).

2.3. The role of the state

In the opinion of Williamson (1984; 1989) and Pittaway (2005), the free market is Hayek's dream and it cannot be sustained as is claimed by the proponents of the free market. Every corner of the market becomes specific instead of general; one can see the contract among the different agents; agreements take place; perfect knowledge becomes the dream; and moral hazards and adverse selection take place in the current scenario of the market. The future is always uncertain, no one cannot make exact predictions about the future. One may be able to minimize risk but it cannot be eliminated. In this environment of uncertainty, experts and policymakers agree that the duty of the state is to intervene and formulate laws for the protection of stakeholders. Similarly, the state should formulate the rules, laws, and regulations regarding the structures and workings of firms, i.e. laws about partnership, laws about the relationship between shareholders and management, laws about workers' welfare, etc. Garvey (2003) and Ricketts (2002) claim that every economic activity has social and economic costs; the same holds with the activities of the firm. So this is the duty of the firm: to formulate laws for the protection of these agents from economic and social costs.

In the opinion of al-Ghazali, the state is an important and indispensable institution. The function of the state is not only to allocate resources in an optimal manner, to distribute income, and to maintain equality; the duty of the Islamic state is to implement sharia rules and fulfill the role of social obligations (*fardkifayah*). He further added that "state and religion are the inseparable pillars of an orderly society. The religion is the foundation and the *sultan* [king/ruler] is its promulgator and protector. Any pillar without a foundation will be weak, and if not protected, it may crumble" (Ghazanfar and Islahi 1997, 35). Al-Ghazali emphasizes that the obligation is on the state to create an environment of cooperation among the different social

and economic agents and to promote economic activities that are good for the livelihood of all members of society (Ghazanfar and Islahi 1997).

Abu Yusuf (AH 1392) asserts that the most important objective of the state is to improve the welfare of society, and that for the achievement of this objective the state must utilize all of his possible resources. 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" (cited in Ghazanfar and Islahi 1997, 16).

A general textbook of macroeconomics teaches us that aggregate demand has a positive impact on the demand for labor even in the short run. In the Islamic system, if society is not able to fill the gap between aggregate demand and supply then it is the duty of the state to do so. We may infer this easily from the discussion of al-Ghazali, who said that it is the duty of the state to provide as far as possible the basic needs to all members of society, resources permitting, and also that the state should try to minimize the conflict among the different agents and among their objectives and should create the harmony among the members and different groups of society. For example, al-Mawardi says that if the state is involved in the provision of basic needs (necessities) to the society then there is no harm in collecting taxes from the public (al-Mawardi 1979, 215). In the opinion of the famous Muslim jurist Abu Yusuf, most development projects for the general welfare and for the benefit of the whole society should be financed by the state, whereas if the benefits are only for a particular group then the project should not be financed by the state. So, for these specific projects the beneficiaries are responsible for the financing of these projects (Abu Yusuf 1392, 119). The same is mentioned by al-Mawardi (1973) and al-Farra (1966). According to them, if those projects and their products have the property of non-rival consumption and non-excludability from production, as discussed by Musgrave and Musgrave (1987), and have the nature of public goods, then these projects and the production of these products should be financed by the government. While rivalry in consumption and exclusion from production are possible, this should not be directly financed by the state and the users of these goods and services should pay directly.

One can conclude that creation of aggregate demand depends on state policy, based on who will get the benefit, and at the same time there should be a proper distribution of jobs in the labor market. An appropriate policy should be formulated by considering the above. It is also the duty of the state to provide proper training to the labor force.

Shah Waliullah discussed this issue in a different way and concluded that the state has more responsibility and should have a proper check on the selection of jobs. It is also the duty of the state to control the production of luxuries and also the production of those goods that are not good for society. The state should also control those products which are not permitted under sharia, for example cigarettes, alcohol, pork, etc. (Abdullah 2005).

Section III

Research into the labor market in the periphery of Islam: a drought

Most of the discussion presented in the previous sections of the current chapter gives us a clear-cut picture of the labor market in the Islamic framework. The previous section guides us in how the labor market functions in this particular state of art. It is worthwhile to note that most of the above-mentioned literature is not successful in providing us with the technical notions which we are using in the conventional literature. And, further, they do not support

us in solving the issues of this modern world. As one can see, in the current labor market we have a number of issues that should be discussed under the umbrella of Islam, such as preferences between leisure and labor, between labor and capital, between inflation and unemployment, etc. We can see a number of attempts in the conventional literature discussing the above-mentioned issues. Another issue relates to the mobility of labor. If mobility is not possible then it leads to unemployment. However, in the field of Islamic economics we are unable to find a significant study discussing these issues under within the sharia context, whereas quite a number of financial models are developed and discuss the financial issues in detail. So it is necessary to explore these dimensions in the Islamic framework and to develop the models based on the basic norms of Sharia and its *maqsid* (objective).

Another important issue is related to the nature of the studies. Most of the above-mentioned studies discuss only the theoretical aspects of the Islamic labor market and all lack empirical investigation. It is also interesting to note that the theoretical models and interpretations do not match the existing issues of the labor market. Furthermore, these studies only cover the normative dimensions and very few discuss briefly the positive sides of the labor market. It seems that Muslim economists are reluctant and hesitant to develop models of the labor market based on new theories such as wage efficiency theory, low power incentive, or high power incentive. It seems that they live in a utopian state and are not ready to solve real-world problems.

New literature on Islamic economics cannot cover the different important issues of the labor market, especially the failure to develop new theories and models on philosophical grounds, whereas, centuries ago, Muslim jurists discussed those topics which have since been discussed by conventional economists in the middle of the twentieth century. On the other side, mainstream economics developed a number of theoretical models in the second half of the twentieth century that have their own significance in the literature. These include “search models,” “neoclassical models,” “aggregate real business cycle models,” “models of sectoral shifts,” “unemployment efficiency wage models,” “cyclical unemployment fluctuation and persistent high unemployment,” and “insider–outsider models” of wage and employment determination. Incidentally, it is hard to find any development of these models in the modern literature of Islamic economics. It is a well-known fact that most current Muslim states are underdeveloped and have persistent unemployment. So, keeping that in mind, anyone who wishes to develop any model of the labor market must assumed the basic and current economic conditions of Muslim countries. Muslim economists should analyze the economic models of mainstream economics in the periphery of sharia and see how much these are useful for the development of the Islamic economic models. As noted by Hasan (2005), there is no harm in using the concepts and analytical tools of the mainstream economics for the purpose of our analysis and it is not necessary to use their philosophical worldview.

There are number of important issues related to the labor market which have not been able to capture the attention of modern Islamic economics. For example, Keynesian and post-Keynesian economics are too much concerned with the issue of inflation and unemployment. However, Islamic economics could not cover this subject in detail. There is insufficient time to discuss this subject in detail here, but, briefly, Islamic economics should explain its own version of this issue. One cannot just say that inflation is a man-made issue, as discussed by Obaidullah (2005, 28): “divine rules cannot be changed by the man-made problems like inflation. What is needed is an effective check on inflation through national macro-economic policies and not accept inflation as given.” It is not a realistic approach to close our eyes to real-world issues because every Muslim state is passing through the same phase and observing

the same economic issues as the rest of the world. It is suggested that Islamic economics should concentrate on these real economic issues and suggest the policy tools for the solution of these issues in the periphery of Islamic epistemology.

It is a well-known phenomenon that most of Islamic economic literature preaches the behavior of selflessness, though we cannot completely ignore self-interest, dishonesty, greediness, etc. As Tag El Din (2002) mentioned, *mushaha* and *mughabana* both persist with *mukarrama* in the nature of human beings. Another issue is associated with the firms' training and turnover costs. This issue may be discussed in the state of *mudharabah/musharakha* and turnover may be controlled, as we will discuss under the model of profit sharing.

The substitution between labor and leisure is the most common puzzle discussed by mainstream economics. Khan (1983) discussed it in the setting of consumption. However, we cannot find a significant effort on this issue. According to Islamic injunctions, Muslim workers should be honest, efficient, and loyal to their masters, and their preference toward leisure and labor should be different than workers in conventional settings. Similarly, the employer utility function in mainstream economics is based on self-interest. However, neither party is behaving irrationally; self-interest is part of their objective function, so Muslim economists should also discuss these aspects of the labor market in a rational way. They should suggest that labor policy in Islamic epistemology should be helpful in minimizing disparities and should be able to promote the general welfare. And they should discuss what the framework would be if *mudharabah* and *musharakah* are part and parcel of the Islamic labor market model.

There is a dire need to conduct research on the number of untouched areas, to try to find sharia arguments for them, and to develop a moral policy regarding the following issues: the structure of the labor market (competitive or non-competitive),²⁴ utility-maximizing behavior of workers, workers' pensions, market wage rates, market wage plus (whether it is just or not), issues of labor unions and collective bargaining, issues related to "efficiency wage models" (Katz 1986; Stiglitz 1986; Yellen 1984), "insider-outsider models" (Solow 1991; Lindbeck and Snower 1986; 1988), codes of ethics in an Islamic framework of involuntary employment,²⁵ underbidding, rent sharing (whether it is possible or not),²⁶ development of human resources, workers' identities,²⁷ adverse selection and moral hazard in the labor market, job security, and implicit and explicit contracts and their impact. However, Islamic economics have to explain all of the above-mentioned issues in terms of the current requirements of the real-world labor market.

Summary and conclusion

In the above discussion, we have been unable to cover all of the dimensions of the labor market because Islamic injunctions cover more than we have set out. It worthwhile to note that Islamic norms, injunctions, and epistemology present a different concept of rationality that to some extent does not parallel the concept of mainstream economics. Islam does not consider workers as commodities; it reflects the importance of human dignity, self-respect, and self-esteem. The role of workers and their rights and duties are well explained in Islamic jurisprudence and the participation and cooperation of workers in the production process are well appreciated. The Islamic social welfare function considers labor to be its most important ingredient. It is a well-known fact that all factors of production are for the benefit of human beings; men are allowed to reap the benefit of the services of these factors of production, but

the reverse is not valid in the Islamic framework. Just price, just wage, and just profit are the norms of the Islamic economic culture. The objective function of the firm is not only to maximize its profit but also to care for its employees, provide them with the maximum help and, if possible, also deal with them on the basis of profit sharing. Islam does not always recommend free market economy; it appreciates the intervention of the state where it is indispensable. The *equitable* allocation of resources is more important than the *efficient* allocation of resources. The state should formulate some rules and regulations for maintaining moral and ethical standards and implement those policy tools that can minimize moral externalities. On the other hand, it is the responsibility of the business sector to participate in enhancing the moral and social values of society and to use those ethical modes that are helpful in improving the productivity of the economy. Similarly, it is the responsibility of managers and workers to participate efficiently in the process of production.

In reality, Islamic injunctions and teachings providing sufficient training to its followers, which enhances the well-being of all corners of society and the economy. The private and public sectors complement each other in achieving economic, as well as social, targets. Firms' managements play a crucial role in providing quality services to society and as a result increasing the welfare of the community. Firms should become the "cooperative-competitive organization." On the other hand, the state's role is not a passive one; the state should reorganize the production priorities of the economy and try its best to provide the basic necessities and maintain a wage rate that is not lower than subsistence level of the workers. These teachings are necessary to achieve welfare not only in this life but also in the life hereafter. It leads to a universal welfare set known as *Falah*.

It is observed from the above discussion that Islamic norms are important and play a very important role in the functions of each and every market. The concepts of brotherhood, truth, equity, justice, fairness, and honesty are the basic pillars of the Islamic norms. The reward for the job done should not be just fixed on the basis of demand and supply; it is above market forces and also caters to the Islamic norms of justice, kindness, generosity, and fairness. Wages should be paid before the sweat of workers is dried out, i.e. no delay in the payment of wages. The relationship between employer and employee has its unique nature; it develops on the basis of brotherhood. There is no concept of master and worker; both have the same status but different tasks are assigned to them.

The literature developed by the old jurists provides us with the basic framework for further analysis but sometimes it is incapable of solving the current issues of the labor market. Muslim economists should try to fill the gap and bridge it with new research. Sufficient literature is available that discusses the normative side of the labor market, but there is still a need to develop theoretical and empirical models that can cover the positive aspects of the labor market.

Notes

- 3 A detailed discussion related to the supply and demand for labor, wages, and their determination has already been presented in Azid (2016), "Wages in an Islamic Economy: A Literature Survey." In this chapter we try to present the philosophical issues discussed by Muslim jurists in relation to these topics.
- 4 Allah (SWT) mentioned in the Qur'an the wrong and right dimensions of human behavior: "Those who believe in the Qur'an 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 Dealings and doings are in their best form.
 - 6 Islamic principles do not allow the harming of oneself and not others.
 - 7 “But waste not for Allah loves not the wasters” (6:141) and “O children of Adam! Wear your beautiful apparel at every time and place of prayer: eat and drink: and waste not, for Allah does not love wasters” (7:31).
 - 8 “The parable of those who spend their substance in the way of Allah is that of a grain of corn; it grows seven ears, and each ear has a hundred grains; and Allah gives many fold increases to whom He wills and Allah is all-sufficient (to meet His creatures’ needs) and is all-knowing” (2:261).
 - 9 “If you disclose your *sadaqaat*, it is good; but if you conceal them and give them to the poor, that is better for you. Allah is well-acquainted with what you do” (2:271).
 - 10 “Who is he that will lend to Allah a goodly loan so that He may multiply it to him many times. And it is Allah that decreases and increases, and unto him you shall return” (2:245) and “Verily those who give *Sadaqah*, men and women, and lend Allah a goodly loan, it shall be increased manifold and theirs shall be an honourable good reward” (57:18).
 - 11 All these ethical and moral norms are based on the degree of God-fearingness.
 - 12 In the Islamic framework, knowledge about sharia 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 the Islamization of society leads to increased practice of Islamic values such as honesty; as a consequence, the moral hazard problem would be reduced. Qur’an 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).
 - 13 In the Islamic system, the only objective of every social and economic agent is to get a higher-level reward and to please Allah (SWT).
 - 14 Tag El Din (2002, 201) described that “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.”
 - 15 Competition and cooperation are complements to each other in an Islamic economic market.
 - 16 In this regard, al-Ghazali quotes the Prophet (pbuh): “There are some sins which are forgiven because of the worries and pressures of earning one’s living.”
 - 17 “One who neglects it (i.e. prayer), will surely be more negligent towards other duties”; “The adulterer cannot commit an adultery while he is a believer”; “It follows from all this that authority, for one who assumes it, as a religious duty to seek thereby nearness to Allah and fulfils its obligations as far as possible, is the best of good deeds.”
 - 18 The Prophet (pbuh) is reported to have said, “He who gets to bed extremely tired because of his (manual) work (along the day) his sins will be forgiven that night.”
 - 19 Salaries should be paid without any delay otherwise they would be forced to borrow money on interest, which will cause much loss to them and they might not carry out their duties properly.
 - 20 www.islamonline.net/servlet/Satellite?pagename=IslamOnline-English-Ask_Scholar/FatwaE/FatwaE&cid=1119503547328S.
 - 21 www.islamonline.net/servlet/Satellite?pagename=IslamOnline-English-Ask_Scholar/FatwaE/FatwaE&cid=1119503547328S.
 - 22 Imam Ghazali said that “Thus, the undertaking of a particular economic endeavor by a Muslim entrepreneur is not merely motivated by the desire for private profits, but also by the desire of fulfilling a sharia-mandated socially obligatory duty” (Ghazanfar and Islahi 1997, 26).
 - 23 Such principles are observed in the following Qura’nic 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).

- 24 Khan (1990) has the opinion that the clearing of the labor market is an automatic phenomenon in the Islamic framework and that there is no need for any authority to intervene, which is not understandable in the scenario of the current economic world.
- 25 Katz emphasizes that perfect does not exist in the real world, so no one can refute the concept of wage differentials. And wage differentials are directly associated with the “profitability of industry,” “monopoly power,” “capital intensity,” and “average education” (Katz 1989).
- 26 According to Katz (1989, 515), “Rent sharing would also arise if firms must pay efficiency wages for effort elicitation, selection, or turnover reasons in some job categories and then face internal equity constraints that lead them to pay high wages even in job categories where efficiency wage considerations are not important.”
- 27 Different studies on sociological economics have discussed in detail the “sense of identity of the worker,” his loyalty with the firm, his attachment, and its impact on the well-functioning of the institutions and organizations (Granovetter 2005; Akerlof and Krashinsky 2005). And Azid and Asutay (2007) are of the opinion that the behavior of labor is significantly associated with social identity, and the utility function of labor is also based on the social and religious norms of society.

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The division of labor and its theoretical foundations

Comparing Ibn Khaldun and Adam Smith

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1. Introduction

In modern societies the production of luxury goods is central to our endeavors and we measure the quality and progress of our civilization by it. We therefore measure our happiness in terms of the acquisition of these material goods, not the goods of our character. Many modern thinkers regard this as an innate propensity of human nature. Adam Smith, the eighteenth-century author of *The Wealth of Nations*, holds that people are born to spend for their momentary pleasure, and also to save to improve our material conditions, which is embedded in us from the womb and “never leaves us till we go into the grave. . . . An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition” (Smith 1976a, vol. I, 279). However, Smith maintains in his *Theory of Moral Sentiments* that, on the one hand, the desire for material betterment drives economic growth but, on the other hand, it disrupts people’s tranquility. This drive for material prosperity leads people to cooperate with others through the division of labor. Four centuries before Smith, Abd al-Rahman Ibn Khaldun, the North African sociologist, held that the division of labor increases production and profits. In this chapter, we shall compare the views of these two thinkers with respect to the division of labor and the social and philosophical contexts that shaped their ideas. Ibn Khaldun lived in a tribal society characterized by *asabiyyah* (social solidarity), while Smith lived in a market society characterized by self-interest.

2. The social and theoretical foundations of Ibn Khaldun’s thought

In his *Prolegomena (Al Muqaddimah)*, Ibn Khaldun (1332–1406) of Tunis laid the foundations of the science of civilization (*al-‘umran*). He served Arab rulers in Tunis, Fez, Granada, Damascus, and Cairo as courtier, jurist, statesman, and political advisor. Ibn Khaldun is scientific in his description of the economic life of his time, and some scholars regard him as the real father of economics, whose ideas have been taken up by Adam Smith, David Ricardo, and Karl Marx. It is in his *Muqaddimah* that he developed his labor theory of value and his concept of the division of labor. The focus of this study will be on his concept of the division of labor; but to understand it in its proper context we need to provide some insight into the social and philosophical foundations of his thought.

Fundamental to an understanding Ibn Khaldun’s economic thought is his theory of social solidarity (*asabiyyah*). This theory resonated with the Ottoman scholars, who noted the parallels between the rise and fall of North African dynasties and the rise and fall of the

Ottoman Empire. Ottoman historians appreciated Ibn Khaldun's explanation of political and economic trends in terms of human calculation, and not merely as divine decree (Fleischer, 1984, 47–51). This is a departure from the classical mystical scholars, who tended to espouse an abstract view of happiness of the afterlife at the expense of the empirical realities of this world. Ibn Khaldun was not an economist, and he did not regard economics as a separate discipline, but he appreciated the dynamic symbiotic relationship between economic activity and social solidarity.

Social solidarity is fundamental to the flourishing of the crafts, as the crafts depend on social cooperation. Thus, when this social solidarity is weakened the social cooperation needed for the development of the crafts would be weakened. There is a direct correlation between the flourishing of the crafts and the support and rise of the state, and between the decline in the crafts and the declining support for the state and its fall.

Social solidarity (*asabiyyah*) refers to the authority wielded by the chieftain, which is also derived from his material standing as “a result of profits from trade and appropriation from plunder and pillage.” Thus, social solidarity refers to kinship ties, a socially cohesive religion such as Islam, and the chieftain's strength through trade, booty, and conquest (Alatas 2008, 70). Religion has an important role to play in the strengthening of the dynasty and in directing it on the right path so that the dynasty can have a religious basis, which will be “useful for life in both this world and the other world.” Any dynasty that is “dictated by force, superiority or the free play of the power of wrathfulness, is tyranny and injustice and considered reprehensible by [the religious law] as it is reprehensible by the requirements of political wisdom” (Ibn Khaldun, 1958, vol. I, 386). However, when the new dynasty indulges in luxuries its solidarity is weakened and then a tribe with strong social solidarity will conquer it and become the new political elite. Ibn Khaldun sees the repetitive conquests of the sedentary society as a way of reforming the excesses of urban life, particularly the luxury that is the main cause of immorality and impiety (Alatas 2008, 70).

Natural kinship and worldly desire are the two key elements in the formation of social solidarity; but stronger than these two elements is religion. Islam as a religion removes the envy resulting from worldly pursuits and restrains its followers from immoral and unjust practices, as they are conscious of the promise and rewards of the hereafter. This certainly helps in making the social solidarity stronger. The absence of religious consciousness, and the diminishing sense of accountability before God, weakens the social solidarity.

The dynasty supports the craftsmen and their crafts, providing craftsmen with incentives to be more productive. The flourishing of the crafts in turn promotes material comfort and happiness among the citizens, who tend to be supportive of the powerful dynasty, at least for a few generations. The material comforts weaken the social solidarity of the political elite, leading to a decline in the crafts and the fall of the dynasty, and, second, in terms of the declining productivity of the crafts, which leads to increasing dissatisfaction among the citizens of the dynasty. Thus, “[i]f government business slumps and the volume of trade is small, the dependent markets will naturally show the same symptoms, and to a greater degree” (Ibn Khaldun 1958, vol. II, 103). Thus, the downfall of the dynasty is connected to the downfall of the economy.

Ibn Khaldun makes a distinction between nomadic and sedentary societies, between “rural culture” (*‘umran badawi*) and “urban culture” (*‘umran badari*). Rural culture focuses on the cultivation of land and the rearing of domesticated animals, done mainly by members of the family and tribe. Labor is aimed at satisfying basic needs such as eating simple foods, wearing clothes from animal skin or hand-made material, and living in tents or huts

(Mahdi 2006, 193; cf. Lacoste 1984, 92–117). These crafts require simple tools. Rural culture has no public works, market economy, or taxation. It lacks literacy and organized knowledge, but its members have physical strength and moral virtues; they eat healthily, breathe fresh air, and do hard physical work. They lack the security of walls but are courageous, close to their innate human nature (*fitrah*), and inclined to a virtuous life. Rural people are productive as they are self-reliant, cooperative because of their strong social solidarity, and are in no need of a sophisticated political economy (Mahdi 2006, 193).

Urban culture is based in the city, which has a large population and advanced economic activity. Dynasties base themselves in the cities, where they produce a sedentary way of life in which citizens enjoy the luxury goods produced by the various crafts. Due to sloth and complacency they become weak, paving the way for the takeover of the new dynasty (Weiss 1995, 30). Group solidarity is vital for the production of crafts (Wallace 2009, 140–141) and provides the needed cooperation for the division of labor (Wallace 2009, 35).

2.1. Crafts and craftsmen in the time of Ibn Khaldun

The crafts flourish in the city, and in North Africa they were well established at the time of Ibn Khaldun. Unlike the essential crafts of building, weaving, and cooking that are found in rural settings, the city specializes in luxury crafts such as perfume-making and carpet-making. The craftsman usually has his own workshop, tools, and raw materials, and would sell for a profit, part of which he uses for his subsistence and part he uses to purchase more raw materials. What he uses is sustenance from God's sustenance, and the remainder is his profit. The craftsman owns the means of production, including his tools and materials – or sometimes the customer provides the material – and he provides the labor with the help of family members and some outside assistants.

Ibn Khaldun held that profit is an incentive for trade and the motivation for the craftsmen, and because of the abundance of wealth the crafts flourished as people were prepared to pay for labor and skill. He knew that humans want to improve their material standards of living but warned against excessive luxury, as it weakens group solidarity. When government imposes heavy taxes and interferes in trade, it is because of external threats to the state and the weakening social solidarity of the ruling elite (Black 2001, 179).

2.2. Ibn Khaldun's concept of the division of labor

The idea of the division of labor was not new to Ibn Khaldun; it is present in the writings of earlier Islamic philosophers, including al-Raghib al-Isfahani (d. 1060) and al-Ghazali (d. 1111). The whole notion of cooperation was fundamental to the productivity of the crafts. The main difference is that Ibn Khaldun developed a theory around this and placed the division of labor within the theoretical frame of social solidarity (*asabiyyah*). The classification of the crafts is also not new; in particular, the distinction between the essential crafts of weaving, agriculture, building, and the luxury crafts we alluded to earlier. This kind of classification was already present in the Ikhwan al-Safa (tenth century), and in the works of al-Isfahani and al-Ghazali. In an earlier study we compared their classification of crafts with that of Ibn Khaldun (Mohamed 2006, 35–51). It is the idea of the specialization of skills that is emphasized in Ibn Khaldun, and that years of practice leads to the perfection of the craft:

Each particular kind of craft needs persons to be in charge of it and skilled in it. The more numerous the various subdivisions of a craft are, the larger the number of the people who

[have to] practice that craft. The particular group [practicing that craft] is coloured by it. As the days follow one upon the other . . . the crafts-coloring men become experienced in their various crafts and skilled in the knowledge of them. Long periods of time and the repetition of similar [experiences] add to establishing the crafts and to causing them to be firmly rooted.

(Ibn Khaldun 1958, vol. II, 286)

Thus, there can be no division of labor without specialization, and there can be no specialization without years of practice. With practice, the skill of the crafts becomes fixed in the human soul, as if to say a person is born for the craft. Just as sedentary culture arises from long-lasting dynasties, the crafts arise from “[nations] when much diversity develops among its various subdivisions” (Ibn Khaldun 1958, vol. II, 286). The more subdivisions of a craft, the more craftsmen are required, both for management and skill. As dynasties become firmly rooted over time, crafts become firmly rooted in the human soul, leading to the perfection of the craft. The craftsman is happy with the craft he is trained in and, with practice, he would not want to change it for any other craft (Spengler 1963–1964, 279).

Al-Hamdi divides Ibn Khaldun’s division of labor into three levels: the industry level, the societal level, and the international level (Al-Hamdi 2006). Regarding the industry level, Ibn Khaldun makes the distinction between simple and complex crafts. Complex crafts require greater refinement: “The [susceptibility] of the craft to refinement, and the quality of [the purposes] they are to serve in view of the demands made by luxury and wealth, then correspond to the civilization of a given country” (Ibn Khaldun 1958, vol. II, 347). A sedentary civilization will produce more refined crafts, but if it is not yet developed it produces simple crafts of agriculture, such as the making of bread, and also the simple crafts of carpentry, smithing, tailoring, butchery, and weaving. These crafts are also shared in the rural areas, but in the cities they become more refined and more rooted (Ibn Khaldun 1958, vol. II, 349). If a craftsman wants to make profit he has to produce that which is valuable for the city. He “must employ his labor only on whatever has value in the city, if it is to be profitable to him” (Ibn Khaldun 1958, vol. II, 351). Without demand, a craft is neglected or disappears (Ibn Khaldun 1958, vol. II, 364). Thus, “[i]t has been said . . . ‘every man’s value consists in what he knows well’. This means that the craft he knows constitutes his value, that is, the value realized from his labor, which is his livelihood” (Ibn Khaldun 1958, vol. II, 351–352). As mentioned, the refinement of the craft depends on time and practice, but also on the demands of society. More elegant and refined goods are in demand as society becomes more sedentary:

Then, when sedentary culture increases and luxury makes its appearance and people want to use elegant types of roofs, doors, chairs, and furniture, these things come to be produced in a most elegant way through mastery of remarkable techniques which are luxuries and in no way necessities.

(Ibn Khaldun 1958, vol. II, 364)

Craftsmen with different skills should cooperate with each other to produce specific products (Ibn Khaldun 1958, vol. II, 89ff., 301, 417–419). Through such division of labor, more of the product can be produced in less time. In carpentry, one person carves doors, another turns pieces of wood on a lathe, and another puts these pieces together so “that they appear to the

eye to be of one piece” (Ibn Khaldun, 1958, 89ff, 301, 417–419). Thus, people can be more productive through cooperation and specialization.

The quality and quantity of the craft depend on how developed the city is and the demand for luxury. Sedentary craftsmen have more exposure to various techniques than rural craftsmen, who only work for the necessities of life. Through good habits crafts have become second nature to them (ibid., 432–433).

With increasing wealth there is more demand for sophisticated products in differentiated markets, which in turn offer new opportunities for further productive specialization. Development emerges with the stimulation of demand and supply (Ibn Khaldun 1958, vol. II, 277, 351) and with the support of science and technology (Ibn Khaldun 1958, vol. II, 434–435).²⁸ The demand for labor and productivity increases with the growth of civilization:

When civilization increases, the available labor again increases. Again luxury again increases in correspondence with the increasing profit, and the customs and needs of luxury increase. Crafts are created to obtain luxury products. The value realized from them increases and, as a result, profits are again multiplied in the town. Production there is thriving even more than before. And so it goes with the second and third increase. All the additional labor serves luxury and wealth, in contrast to the original labor that served the necessity of life.

(Ibn Khaldun 1958, vol. II, 272–273).

Thus, the city is the center for the production of the crafts, and the crafts contribute to the development of civilization. Population is concentrated in the cities and people of various skills can cooperate easily to work on various projects. Thus,

[t]owns and cities with their monuments, vast constructions, and large buildings, are set up for the masses [vast population] and not for the few. Therefore, united effort and much co-operation are needed for them. . . . As a matter of fact, [human beings] must be forced and driven to [build cities].

(Ibn Khaldun 1958, vol. II, 235)

Accordingly, the elaborate division of labor in cities is aimed at greater production of refined luxury goods. Ibn Khaldun states that in the city the wealth increases, luxury multiplies, and various kinds crafts are firmly established (Ibn Khaldun 1958, vol. II, 287).

Ibn Khaldun holds that through the division of labor more goods can be produced more quickly. Baking more bread faster would require the collaboration of various craftsmen, including a blacksmith, a carpenter, and a potter. If six to ten people cooperate, they can produce more food than they can on their own (see Table 3.1 below). With greater productivity, there is greater profit, as one supplies not only one’s own town but all the neighboring towns and cities. With greater prosperity, there is greater demand for luxury, and hence for the crafts that produce them. (Ibn Khaldun 1958, vol. II, 272). Hence, Ibn Khaldun advocates a social organization of production in the form of specialized labor and cooperation.

3.1. Economic and philosophical thought before Adam Smith

The dominant capitalist economy as we know it today in Britain, western Europe, and the United States only became dominant in the nineteenth century. The core of the Industrial

Revolution, with its machine technology and national market integration, transformed all segments of life, private and public, secular and spiritual, family and society. Machines and markets transformed not only the material life but also the social life of society. The world was brought to the feet of Europe's political and economic orbit through colonies and commercial trade. This brought advantages and disadvantages. The disadvantages were that the machines and markets produced massive urban squalor, sporadic unemployment, the destructiveness of war, and the alienation of mechanical labor.

Human labor and natural resources had become commodities that were available for purchase at a price, just as goods and professional services had a price. The value of all of these was measured in terms of profitability. Social critics regarded the market system as materialist and individualistic. Livelihood was market-related and material self-gain was the overriding principle of capitalism. Since one must earn money to live, even friendships were influenced by markets.

In the seventeenth and eighteenth centuries, mercantilism was practiced by almost all European countries. This was an economic system that developed during the decay of feudalism to unify and increase the power and, in particular, the monetary wealth of a nation by strict governmental regulation of the entire national economy, leading to restrictions on trade. But, before the end of the eighteenth century, the increasing use of credit in various forms was rapidly decreasing the importance of bullion and hard money, the acquisition of which had been the focus of mercantilism. Around 1700 a *laissez-faire* approach to the economy emerged that held that prosperity could best be achieved by radically curbing the interference of government in economic affairs.

Ethical thought and the conception of human nature also changed radically and departed from the Christian virtues of moderation, thrift, and humility. It suffices to mention just two figures, de Mandeville and Hume. In England, a Dutch doctor, Bernard de Mandeville (1670–1733), shocked the public with his view that public prosperity depends on private vices such as pride, luxury, and vanity. He gave the example of how the gin shops help society: they may ruin families but they pay taxes to the government and rent to the landlords; the exchange of grain for gin helps the farmers, etc. There is virtue in being selfish; it contributes to the welfare of the nation. David Hume's (1711–1776) idea of self-interest and sympathy had a direct influence on Adam Smith. Hume was inspired by *laissez-faire* philosophy and held that productive labor, not large amounts of money, was a country's greatest asset, and that foreign trade was valuable because it enabled a nation to use more varied labor. More significant for an understanding of Smith's philosophical foundations of self-interest was Hume's ethical thought. Hume diverted radically from the Aristotelian concept of reason as fundamental to the nurturing of virtues. For Hume, reason has no control over passion and philosophers mistake gentle passion for reason. Reason is impotent to produce any action; the most powerful force is that of passion. Passion can only be overcome by a contrary passion. Hume states, "[r]eason is and ought only to be the slave of passions, and can never pretend to any other office than to serve and obey them" (quoted in Kenny 2006, 83). The most important virtues for him are benevolence and justice. Benevolence is universally admired but applicable only to family and close friends, and so it cannot be the basis for justice. Therefore, we need justice; although an artificial virtue, it is essential for the social order of society and to protect people's rights such as private property. Justice is therefore inspired by self-interest, as Hume states:

Instead of departing from our own interest or from that of our nearest friends, by abstaining from the possessions of others, we cannot better consult both these interests, than by

such a convention; because it is by that means we maintain society, which is so necessary to their well-being and subsistence, as well as to our own.

(quoted in Kenny 2006, 263)

Unlike the utilitarian virtue of justice, benevolence and all its related natural virtues of meekness, charity, and generosity arise out of the fundamental aspect of human nature: sympathy. And it is sympathy that becomes the source of all artificial virtues.

3.2. *Smith and the theoretical foundations of self-interest*

Adam Smith (1723–1790) studied as a teenager at Glasgow University, which was a hotbed of the Scottish enlightenment. Glasgow was also a center for trade in livestock, and some biographers think that this had some impact on his economic theory. He had a great regard for his professor of moral philosophy, Francis Hutcheson, and after 1740 he studied for six years at Oxford University.

Hume's ideas were overshadowed by those of his friend, Adam Smith, who wrote the most important work on economics of the time, which sought to bring about a synthesis of eighteenth-century economic thought. Smith is generally regarded as the founder of modern economics. His *Inquiry into the Nature and Causes of the Wealth of Nations* was the first major work to provide an in-depth analysis of the place of capital in production. No book has had more influence on economic thinking and policy than this book. Although many of Smith's ideas can be traced to some of his French contemporaries, he is regarded as the founding father of modern economics.

He believed that labor is the main source of value and that the division of labor increases productivity. The specialization involved in the division of labor requires more capital to pay for machinery and laborers' wages (McConnell 1943, 88). *The Wealth of Nations* is a work on political economy dealing with the relationship between freedom and order; it examines economic processes and attacks the British mercantile system's limit on free trade.

Smith holds that people are moved by self-interest, which leads to order and progress. To make money, people produce things that others are willing to buy. When buyers and sellers meet in the market, a pattern of production develops that leads to social harmony. He saw economic behavior as primarily guided by the fundamental force of self-interest, and he saw the economy as a system in which regular patterns emerge from people interacting in markets on their own accord. Order will result if people are led by their own devices. All of this is led by an "invisible hand," in terms of which the economy is led by the market, not the state. The market will enrich merchants, manufacturers, and landlords, but not the working masses. Merchants and landlords can live on their stock for two years, but workers can barely live for a week without employment. "The masters, being fewer in number, can combine much more easily: and the law, besides, authorises, or at least does not prohibit, their combinations, while it prohibits those of the workmen" (Smith 1976a, vol. I, 84).

Thus, merchants and manufacturers have an advantage over workers, whose wages are low and barely sufficient to maintain their families. Smith is aware of the consequences of the liberal economy, where the working masses cannot for long rise above the minimum level of survival. He states:

A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more, otherwise it would be

impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation.

(Smith 1976a, vol. I, 85)

Although Smith was hopeful that the growth of productivity would help to eventually improve the wages of the working class, the reality was somewhat different. J.K. Galbraith, a modern economist, was skeptical of this position and held that the notion that the income of the masses could not rise above the minimum level eventually justified the ideological assault on capitalism by Marxists and others (Galbraith 1958, 31). But Galbraith looked at Smith only from the point of view of *The Wealth of Nations* and not his earlier works.

Thus, the working class is doomed to a minimal level of subsistence. However, Smith believes that they are better off than in a feudal economy, where their freedom was severely curtailed. In a commercial economy workers should at least fulfill their basic needs of food, clothing, and shelter. But this requires a stable government to protect the rich from the rebellion of the poor. It is the rich who create jobs for the poor.

Smith explains economic growth in terms of the division of labor (Lavezzi 2001, 3–5) which improves the dexterity of the worker, allows the worker to save the time needed to switch between divergent activities by focusing on only one activity, and puts the worker in the position of inventing machines to facilitate his job. The inventor of the machine is not the worker who is restricted to one particular task, but he whose responsibility it is to observe the machines: his “trade is not to do anything, but to observe everything” (Smith 1976a, vol. II, 14).

Self-interest is the motivating drive of economic activity. Thus: “[i]t is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages”.

(Smith 1976a, vol. I, 2)

People are thus moved by self-interest, except for the beggar, who “chuses to depend chiefly upon the benevolence of his fellow-citizens” (Smith 1976a, vol. I, 27).

Thus, only the beggar depends on the charity of others. The craftsman knows that people are motivated by self-interest, and so if he offers them something they can benefit from they will employ him. Smith states:

He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he only intends his own gain, and he is in this, as in many other cases, led by an invisible hand to promote the end which was no part of his intention.

(Smith 1976a, vol. I, 456)

3.3. Smith and the theoretical basis of sympathy

Adam Smith was not as much a defender of unfettered free enterprise as he is made out to be, but he could also argue opposite sides of the same issue. He was worried that giant corporations could dominate particular industries and use their influence with government to

suppress the wages of the workers (Smith 2003, xii). Self-interest was not an end in itself but led to the greater good:

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society which he has in view. But the study of his own advantage naturally, leads him to prefer that employment which is most advantageous to the society.

(Smith 2003, 569–570)

Smith, who had been a professor of moral philosophy at Glasgow University, published a *Theory of Moral Sentiments*. He followed up on Hume's emphasis on sympathy as a basic element in our moral judgments, presenting a more complex analysis of human sympathy and its connection to morality. Whereas Hume reduced sympathy to the sharing of pleasure or pain with another, for Smith it could arise from the sharing of any passion, and it is not merely utilitarian in orientation. Our concern for justice arises from sympathy with the victim's resentment of harm, and we approve of benevolence because of our sympathy with the benefactor's generosity and the beneficiary's gratitude (Kenny 2006, 87).

As mentioned, for Smith, people are driven by self-interest, which drives people to cooperate to achieve material prosperity. And, without intending it, they help people in the lowest rank of society. This is made possible through the "invisible hand," which possibly means that individual exchange in the marketplace inexorably leads to the greatest good for the society. Smith knows that the market economy will not make the working class wealthy, but it will at least create jobs for them.

The free market creates a "universal opulence which extends itself to the lowest ranks of the people" (Smith 1976a, vol. I, 10). The poor benefit also, as:

No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged.

(Smith 1976a, vol. I, 36)

It is not only that workers are able to obtain a decent wage and live a decent life, but they will have healthies bodies that will enable them to be more productive and thus improve their own material conditions (Smith 1976a, vol. I, 49).

Although the idea of self-interest is strongly expressed in *The Wealth of Nations*, the reader should bear in mind that the contrasting idea of sympathy is contained in *The Theory of Moral Sentiments*, which was first published in 1759, about 20 years before *The Wealth of Nations*. These are two apparently contradictory notions but, according to Otteson, they can be reconciled.

Thus the people Smith describes in the [*The Theory of Moral Sentiments*] and [*The Wealth of Nations*], far from operating on the basis of fundamentally inconsistent natures, turn out upon examination to have a single and constant nature that reflects their natural desires for mutual sympathy and a better condition in life. In [*The Theory of Moral Sentiments*],

Smith focuses his attention on the desire for mutual sympathy and the unintended order to which it leads, namely the general rules of morality; in [*The Wealth of Nations*], he concentrates on the desire for better conditions in life and the unintended order to which it leads, namely, economic markets.

(Otteson 2002, 7)

Thus, for Otteson, Smith's notion of self-interest is not as selfish as it seems. It drives industry, which through the "invisible hand" benefits the whole of society. Smith sees people as driven by both passions and sympathy. Because of the human capacity for sympathy, institutions are created for the common good.

According to Smith, the luxuries of the rich, such as "trinkets and baubles," are more trouble than they are worth, and they cause more harm than good (Smith 1976a, vol. I, 421). They may be slightly convenient for a person, but they "leave him always as much, and sometimes more exposed than before, to anxiety, to fear, and to sorrow; to diseases, to danger, and to death" (Smith 1976b, vol. I, 183). Another problem with material prosperity is that it makes the poor feel socially alienated. Smith's view of poverty has not really been fully appreciated (Gilbert 1997, 273–274) and he states that a healthy man, free of debt and clear of conscience, would regard material fortune as superfluous (Smith 1976b, 45). The poor want material prosperity, not because they are distressed by physical discomfort but because they would want to reach an acceptable level of social existence. It is precisely in a commercial society where they poor are made to feel inferior:

The poor man is ashamed of his poverty. He feels that it either places him out of sight of mankind, or, that if they take any notice of him, they have, however, scarce any fellow-feeling with the misery and the distress which he suffers. . . . To feel that we are not taken notice of, necessarily damps the most agreeable hope, and disappoints the most ardent desire, of human nature. The poor man goes out and comes in unheeded, and when in the midst of the crowd in the same obscurity as if shut up in his hovel.

(Smith 1976b, 51)

Thus, the poor man seeks to better his material conditions so that he can progress to a higher social rank, and yet he is despised by society. Smith provides the example of a poor man's son, who lives in his father's simple cottage but works day and night in order to better his condition and, after a lifetime of toil, "he curses ambition, and vainly regrets the ease and the indolence of youth, pleasures which are fled forever, and which he has foolishly sacrificed for what, when he has got it, can afford him no real satisfaction" (Smith 1976b, 182). This feeling of social alienation is found in the city, where he is sunk into obscurity and darkness and abandons himself to every sort of "low profligacy and vice" (Smith 1976a, vol. II, 795).

In his opening statement in *The Theory of Moral Sentiments*, Smith rejects Mandeville's position that virtue has no positive benefit on the economy: "However, selfish man may supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though they derive nothing from it except the pleasure of seeing it" (Smith 1976b, 9). Smith argues that people are not as selfish as are commonly assumed, but derive pleasure in seeing other people happy, for it is within their nature to be concerned about others. This aspect of human nature is the philosophical point of departure for his notion of sympathy, which is not simply feeling bad for another person's suffering but being able to imagine oneself in that person's position.

Wight argues that self-interest should not be reduced to greed. This would be an incorrect understanding of Smith, who views man essentially as a social being rather than an economic being. Smith's moral system is based on sympathy within human nature, and this sympathy cannot be a selfish principle. Wight thus argues for a subtler and richer understanding of self-interest in the economy (Wight 2005).

The prosperity of the commercial society was not, according to Rasmussen, intended as a means to happiness, but rather security and liberty. Smith states:

Although the fact that people tend to desire ever-more material goods might keep them from enjoying complete or unalloyed happiness, this tendency also plays a crucial role in paving the way toward liberty and security, thereby removing the great sources of misery that so dominated precommercial societies.

(quoted in Rasmussen 2006: 309)

It is the illusion of happiness that impels the rich man to collaborate toward greater productivity (McConnell 1943, 69). Material ambition is motivated by vanity, but in the end it only leads to misery. The vain man wants to do things for show and in order to support his "foolish imposition for a few years in the beginning of his life, he often reduces himself to poverty and distress long before the end of it" (Smith 1976b, 256). In spite of this illusion, it has great economic and cultural benefits:

It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which prompted them to cultivate the ground, to build houses, to found cities and common wealth, and to invent and improve all the sciences and arts, which ennoble and embellish human life.

(Smith 1976b, 183–184)

This quest for material prosperity can benefit the poor. A rich man does not have a bigger stomach than that of a poor man, so there is a limit to what he can spend on essentials, and so most of his money he would spend on luxuries. The demand for luxuries creates employment for the poor. Through this employment, the poor can purchase their necessities. This is made possible through the "invisible hand" (Smith 1976b, 184) Thus, the rich and the poor are equal as regards their basic comforts. This brings about real happiness, and even "the beggar, who suns himself by the highway, possesses that security which kings are fighting for" (Smith 1976b, 184–185).

What about the workers who cannot support themselves due to illness, injury, or old age? Smith's response is that human nature is indifferent to the misfortunes of others because people are concerned with their own interests and "will snore with the most profound security over the ruin of hundred millions of his brethren" (Smith 1976b, 136–137). However, he holds that people are also benevolent by nature and will assist one another from "generous and disinterested motives" (Smith 1976b, 85–86). Hence, social justice is imperative, even more than benevolence and its related virtues of charity, friendship, and generosity. The poor deserve our help, as "Peace and order of society is [sic] of more importance than even the relief of the miserable" (Smith 1976b, 225–226). The government imposes order to protect the rich from the envy of the poor, who may usurp their property. The poor should remain poor, or work hard like the rich. Economic inequality is a side effect of a commercial society. The wealthy own the means of production, and the poor, while being

able to fulfill their basic needs, can barely rise above their low economic standards. Smith justifies this inequality as the poor are not in a state of abject poverty and can enjoy some of the conveniences of life. Happiness is not a condition of prosperity but a condition of liberty and security.

James Otteson persuasively argues that the notion of sympathy and benevolence can be reconciled with the notion of self-interest in *The Wealth of Nations*. Raphael and Macfie, the editors of *The Theory of Moral Sentiments*, support this attempt at reconciliation. The incessant desire for luxury goods can make us miserable. It is the liberty and security of the commercial society that are more important than the luxury items. They hold the view that Stoic philosophy also shaped his economic theory. His ethical philosophy is in fact a synthesis of Stoicism and Christian virtues mediated through Hutcheson's virtue of benevolence, which is a philosophical version of the Christian ethic of love. Smith states, "[t]o restrain our selfish, and to indulge our benevolent affections, constitute the perfection of human nature" (Smith 1976b, 25). Thus, these two books are complementary in that the one helps us to understand the other. The notion of self-interest in *The Wealth of Nations* was intended for a specific context. It was for strangers who operate within a commercial society. As for the opposing idea of benevolence in *The Theory of Moral Sentiments*, he ascribes it to sympathy, which is meant for family members and close friends. Thus, there is no conflict in Smith's writing, and he did not change his mind in the two decades before he wrote *The Wealth of Nations*. The notion of self-interest must be viewed within a commercial context and should not have the pejorative connotation that it has had. (Smith 1976b, 21–22). Benevolence is directly proportional to the extent of familiarity with another person. Otteson explains it well: "[t]he impartial spectator approves of actions motivated more by benevolence than self-interest when the matter concerns one's acquaintances, and the actions motivated more by self-interest than benevolence when the matter concerns strangers." (Otteson 2002, 183). Benevolence arises from natural affection, which issues from habitual sympathy, which means that one can also act with benevolence toward people other than one's family, including friends, colleagues, and neighbors (Smith 1976b, 224).

3.4. Smith's division of labor

For Smith, the division of labor is the fundamental cause of economic growth, and expanded with the expansion of the market and adequate supply of capital. While agriculture and trade were still the dominant modes of the economy in the eighteenth century, industrial production was on the increase and the size of the metal industry had surpassed that of the wool industry. The division of labor became a way of managing the production of commodities on a large scale. For Smith, each worker becomes an expert in a tiny aspect of production, thus increasing efficiency and saving time.

For example, the making of a woollen coat involves the labor of many skilled people:

The woollen coat . . . which covers the day-labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carriers, besides, must have been employed in transporting the materials from some of those workmen to

others who often live in a very distant part of the country! . . . If we examine, I say, all these things, and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and co-operation of many thousands, the very meanest person in a civilized country could not be provided.

(Smith 1976b, 11).

Thus, cooperation through the division of labor provides employment. The purchase of a single coat involves a vast network of laborers. In this way commercial society benefits the poor by creating employment.

Partly inspired by the Physiocrats, Smith holds that agricultural lands supply the means of sustenance for the urban populations, who in turn provide the means of manufacture and the goods that would also benefit rural people. The “gains of both are mutual and reciprocal, and the division of labor is in this, as in all other cases, advantageous to all the different persons employed in the various occupations into which it is subdivided” (Smith 1976b, 183–184).

Smith provides a vivid description of how pins are manufactured through the division of labor. An ordinary workman, he says, can barely make one pin a day; but if the trade were divided into various branches, where each person concentrated on one aspect, then how many more pins would they collectively produce in a day?

But the downside of these factories, especially in the nineteenth century, was the boredom and dissatisfaction of the workers because of their mundane and repetitive tasks. Smith is aware of the intellectual degradation of the worker, as he notes in the following passage:

The progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations; frequently to one or two. . . . The man whose whole life is spent in performing a few simple operations, of which the effects, too, are perhaps always the same . . . has no occasion to exert his understanding, or to exercise his invention, in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life.

(Smith 1976b, vol. II, 367)

Thus, Smith knew that the division of labor can stunt the mind of the worker, and proposed special schools for the laboring poor (Smith 1976b, 781–785). The worker is both mentally and emotionally degraded; he does not own his own tools and cannot determine his own hours of work. His work is repetitive and mechanical. In *Discourse on the Origin of Inequality*, Rousseau attacked the division of labor for robbing the worker of his God-given freedom, to be usurped by competition, specialization, and the division of labor. William Summer held that the worker lost his responsibility for improving material conditions, and Marx criticized the market system for reducing the worker to a cog in the machine of production, causing him to become alienated (McConnell 1943, 81–82).

For Smith, the division of labor occurs when several people help each other in the same employment, and is less a characteristic of villages, where “every farmer must be butcher,

baker and brewer for his own family” (Smith 1976a, vol. I, 31–32). It becomes a norm in the cities, where there is demand for luxury goods. For Smith, it is the extent of the market that determines the degree to which the division of labor can survive (Smith 1976a, vol. I, 15).

4. The division of labor: a table of comparison

As we can see from the passages juxtaposed in Table 3.1, the division of labor is important for increased productivity for both Ibn Khaldun and Adam Smith. The former gives the example of producing wheat, which is one of the essentials of life, needed in both the rural and the urban settings. Smith gives the example of a pin, which is a tiny but useful item needed in commercial societies. For Ibn Khaldun, this division of labor is made possible because of social solidarity, not self-interest, as all members of the group work for the benefit of the family,

Table 3.1 A table of comparison between Ibn Khaldun and Adam Smith

<i>Ibn Khaldun</i>	<i>Adam Smith</i>
<p>“The power of the individual human being is sufficient for him to obtain (the food) he needs, and does not provide him with as much food as he requires to live. Even if we assume an absolute minimum of food—that is, food enough for each day, (a little) wheat for instance—that amount of food can only be obtained only after much preparation such as grinding, kneading and baking. Each of these operations requires utensils and tools that can be provided only with the help of several crafts, such as the crafts of the blacksmith, the carpenter and the potter” (Ibn Khaldun 1958, vol. II, 89–91).</p> <p>“The individual being cannot by himself obtain all the necessities of life. All human beings must co-operate to that end in their civilization. But what is obtained by the cooperation of a group of human beings satisfies the need of a number many times greater than themselves. For instance, no one by himself can obtain the share of the wheat he needs for food. But when six or ten persons, including a smith and a carpenter to make the tools, and others who are in charge of the oxen, the ploughing of, the harvesting of the ripe grain, and all other agricultural activities, undertake to obtain their food and work toward that purpose either separately or collectively and thus obtain through their labour a certain amount of food, that amount will be food for a number of people many times their own. The combined labour produces more than the needs and necessities of the workers” (Ibn Khaldun 1958, vol. II, 271–272).</p>	<p>“One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them.</p> <p>“In every other art and manufacture, the effects of the division of labour are similar to what they are in this very trifling one; though, in many of them, the labour can either be so much subdivided, nor reduced to so great a simplicity of operation. The division of labour, however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour” (Smith 1976a, vol. I, 13–24).</p> <p>“It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well governed society, that universal opulence which extends itself to the lowest ranks of the people. Every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for; and every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity, or, what comes to the same thing, for the price of a great quantity of theirs” (Smith 1976a, vol. I, 22).</p>

the group, or the tribe. This social solidarity is also important for the building of civilization, especially in the city, the center for the political elite.

A second observation is that Smith admits that the mechanical nature of the worker's task makes him stupid and ignorant. Marx calls it the alienation of the worker, since he does not own the means of production and is intellectually stunted. By contrast, Ibn Khaldun's craftsman is not alienated because he owns the means of production, including his tools and raw materials, and traditionally hands over his workshop to his son (Hourani 1991, 112–113). The repetition involved in the Muslim's craftsmanship is not intended to dull the mind; on the contrary, it is aimed at perfecting the craft, making it part of his soul, and making it as perfect and as beautiful as possible, so as to reflect the divine perfection and divine beauty at a human level. There can be no charge of alienation here.

A third point to bear in mind is that the similarity in these two passages clearly proves that the idea of the division of labor, as it is formulated here, preceded Adam Smith by four centuries. However, one should not be too hasty to conclude that Ibn Khaldun had a direct influence on Adam Smith. There is no evidence to prove this. These two thinkers wrote in two different languages, so one cannot examine the texts for inter-textual comparisons. Moreover, Adam Smith did not know Arabic, so could not have read the original work unless he obtained the help of a translator to gain access to the content of the Turkish translation of the *Muqaddimah*, which started in 1730. And it is not just this passage or this idea but, as Rosenthal states,

[m]any ideas in the European West long after Ibn Khaldun's time were found amazingly enough, not to be as new as had been thought, but to have been known, in their rudiments at least, to the North-West African of the fourteenth century who founded a new science in his *Muqaddimah*.

(Ibn Khaldun 1958, vol. I, xvii)

5. Conclusion

We have compared the views of two thinkers, Ibn Khaldun, the North African sociologist of the fourteenth century, and Adam Smith, the European economist and moral philosopher of the eighteenth century. They both share the key idea of the division of labor, but this is employed in a different context and for a different purpose. For Ibn Khaldun, the social context is that of the tribe and the traditional economy, and for Adam Smith it is that of the individual and the market economy.

For Ibn Khaldun, the social framework for cooperation is that of the tribe, and the extent of the social solidarity (*asabiyyah*) of the tribe, whether it is the Arab tribe or the Berber tribe. The flourishing of the crafts ultimately depends on this social solidarity and the division of labor that arises from it. If this social solidarity weakens, the craftsmen would be less productive, and this will impact on the life span of the dynasty. Religion is important in the sustaining of this social solidarity, in preserving the morality of the group, and in curbing its members from excessive opulence.

Ibn Khaldun's view on the nature of the state and society is original, and marks him off so clearly from his Muslim predecessors, including Imam al-Ghazali, who was more inclined toward Sufi otherworldliness, total abstention, and small profits for one's minimal needs. Ibn Khaldun, although a religious man, placed no restriction on the pursuit of profits and adopted

a scientific approach to the study of society. However, his science was not the scientific positivism of the European enlightenment.

As a Muslim thinker, he naturally quoted from the Qur'an and Hadith, or provided examples from the lives of the companions of the Prophet, but his central thesis did not depend on these quotations for support. His theory of social solidarity and his concept of division of labor are supported by empirical and historical realities. His citations of religious sources should not undermine the scientific merit of his thesis. Nevertheless, the author was convinced that there is a divine intent in history and that Islam and Muslims are the superior vehicles for implementing it. For him, the pursuit of this divine intent is a human responsibility.

Although Ibn Khaldun supported free enterprise and limited state interference, he did not advocate a kind of capitalism, which implies the private ownership of the means of production, large-scale operations, a rational method of business, and a society in which most people work directly or indirectly for the wealthy. The capitalist spirit is moved by the desire for profits for their own sake and wealth accumulation for the sake of reinvestment. In Ibn Khaldun's time people were interested in trade but were content with little because of their otherworldly orientation. A rich man was often viewed with suspicion. He was thought of as a man of greed, ready to exploit others for profit and willing to sell his soul for money. Ibn Khaldun saw nothing wrong in being rich, as he regarded the rich companions of the Prophet as model examples of how one should use wealth in the service of religion. Nevertheless, Ibn Khaldun was not naïve enough to think that in a competitive environment people would not cheat. He noted the value of religion in curbing dishonesty, extravagance, and immorality. His approach to wealth is innovative; he did not see it as an end in itself, but as an inevitable reality in the process of urbanization and as a means to serve religion (Ghazanfar 2003, 168). For him, wealth has the potential for great good and great harm; it can lead to virtue or vice; it can build a civilization or destroy it.

Alatas believes that Ibn Khaldun's model lacks a conceptualization of the economic system and that the concept of modes of production needs to be added to his theory of state formation (Alatas 2006, 408). Although Ibn Khaldun was not an economist, he saw craft production as integral to social solidarity, state support, and the rank of a person, all factors that promote wealth creation, luxurious living, and the decline of the dynasty. (Mahdi 2006, 216–222). The division of labor is only possible in society. No individual can live alone, since he cannot acquire the necessary food and security on his own. The economic life of the city is marked by refinements in the creation of crafts and luxury goods, which help to keep the ruling elite in power. Thus the rise and decline of the dynasty is a result of the interplay of external conditions and human desires, habits, and faculties. A frugal and religious lifestyle reinforces social solidarity, causing a delay in the decline of the dynasty (Mahdi 2006, 268–269).

As already mentioned, Adam Smith shared with Ibn Khaldun the idea of the division of labor as fundamental to economic growth through the increase in productivity, especially of luxury goods. However, Smith's idea of the division of labor was informed by a market economy, mainly agriculture and trade but increasingly tending toward industrial production as the metal industry began to surpass the wool industry. The division of labor he envisaged was on a larger scale than Ibn Khaldun's.

There is a fundamental difference in the theoretical foundations that underpin the division of labor. For Ibn Khaldun it is the social solidarity (*asabiyyah*) that fosters the division of labor, and the motive is to benefit not only the individual but also the group and the tribe. By contrast, for Smith the human propensity to cooperation is basically that of self-interest,

which through the “invisible hand” leads to economic equilibrium in society. Although Smith believes in the “all-wise Author of Nature [who] created man after his own image,” the invisible hand is not a personal god of Islam or Christianity, but the unfolding of sociological and economic principles.

The humanistic side to Smith should be understood within the framework of his naturalistic theory of sympathy contained in his *Theory of Moral Sentiments*. Through sympathy we share in the suffering of the poor and are charitable toward them. This is an apparent contradiction with the idea in the *Wealth of Nations* that self-interest is the main driving force of human nature. This apparent contradiction can be reconciled. Human sympathy follows the familiarity principle; the more familiar we are with a person, the more sympathy we have. We would have more sympathy for family members and intimate friends than for strangers and acquaintances. It is said that Smith’s notion of sympathy was directed at family members and close friends, and that his idea of self-interest was directed at strangers in a market economy. Hence, these two works are not necessarily contradictory. Even the idea of self-interest in human nature is guided by the invisible hand, which ultimately helps the poorest segment of the society. However, what is problematic here is that the individual does not consciously intend to help the poor, and that it is the nature of the market that helps the poor. Unfortunately, it is the idea of self-interest in the *Wealth of Nations* that capitalism, with all its destructive consequences, has taken on board; the humanistic side of Smith has been largely ignored.

Whether it is the social group that inspires the division of labor or self-interest, both Ibn Khaldun and Adam Smith agree that it leads to the production of luxury goods, especially in the city. They both agree that these luxury goods have a positive and a negative side: positive in providing incentives to work hard, and thus contributing to the building of civilization; and negative in the sense that it leads to competitiveness and all the vices such as greed and envy that go with it. Ibn Khaldun is not actually averse to wealth creation as such, provided one is aware that sustenance comes from God and that wealth should serve religion. This attitude will curb greed and lead to contentment. The division of labor for Ibn Khaldun is not a primary aspect of his social theory and it is not aimed at wealth creation as an end in itself. But for Smith it is central to productivity and to the accumulation of wealth as an end in itself.

Both Smith and Ibn Khaldun warned against the dangers of opulence. In *The Theory of Moral Sentiments* Smith wrote about people’s belief that opulence will make them happy. He said that this was an illusion, but a necessary illusion, as it motivates the trader to accept the division of labor for the sake of the greater productivity, and hence greater prosperity. In reality, it only brings about more misery. This anti-materialist strand is partly inspired by the stoical attitude of self-restraint to temper the excesses of a commercial society. Ibn Khaldun also warned against opulence. For him, it leads to immorality, sloth, and a weakening of social solidarity. When the social cohesion of the tribe suffers, the power of the tribe suffers and it will be overthrown by a tribe with stronger social solidarity. But, unlike the stoical attitude of Smith, Ibn Khaldun did not have a problem with opulence in itself, for many of the companions of the Prophet were very wealthy. He was critical of the affluent society, which allowed their opulence to destroy their religion, social cohesion, and morality. The wealthy companions of the Prophet and the ascetic-minded Sufis saw wealth not as a means of prosperity but as a means of spirituality.

Smith’s stoical attitude of self-restraint may be reconciled with religion at a philosophical but not pragmatic level. Philosophical stoicism has less power to change human behavior than

religion. Nevertheless, modern commercial society was not attracted to the humanist side of Smith's *Theory of Moral Sentiments*, but to the materialist side of his *Wealth of Nations*. It is no wonder that, with the rise of the industrial revolution, the new industrialists used Smith's ideas of materialist happiness to defend a capitalist system that exploited the labor of workers. This system is rooted in the philosophy of self-interest, where the concerns of poverty are less important than those of profit. It led to large corporations retrenching thousands of breadwinners for the sake of increasing profits.

Ibn Khaldun and Smith had no problem with the making of profit, but they were both skeptical of the opulence arising from it. Smith, at least in his *Theory of Moral Sentiments*, was aware that human happiness does not arise out of mere wealth accumulation, and Ibn Khaldun was concerned that wealth accumulation should not destroy the social solidarity and morality of the tribe. Both conceived sympathy and charity to be intrinsic to human nature, but while the former expected this sympathy to flow from individual conscience, the latter held that it should be reinforced through social solidarity and religion. However, two centuries after Smith, empirical reality has demonstrated that the individual's conscience alone cannot be relied on and that external pressures should also play a role in making humans act in a responsible manner. In this respect, Ibn Khaldun has a contribution to make through his theory of social solidarity and the role of religion in nurturing it.

Note

28 *ibid.*, 434–435.

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A critical examination of the concept of “human capital”

The perspective of Islamic economic jurisprudence

Zeyneb Hafsa Orhan

I. Introduction

The term “capital” had been existed long before capitalism, but it was exposed to a major transformation by the emergence of it because, as the engine of capitalism, industrialization changed the way that economists evaluated and defined economic development, as well as the concepts attached to it. In this way, the meaning of capital shifted from “monetary finance” to the “means of production.” In time, its meaning widened even further and started to include “anything which is helpful to produce economic value.” Today, the concept of capital also includes neo-capital concepts, such as human capital, which have been encountered more often since the 1960s. In general, what is meant by human capital is any attribute pertaining to human beings in producing economic value.

Islam is a religion that provides a worldview that is compatible with the divine. Such a view includes, among other things, how to evaluate and conduct economic affairs, how to build economic relations, and so on. This was also the starting point of the twentieth-century discipline of Islamic economics.²⁹ Despite there still being no consensus regarding its definition, here we would like to share the following definition of Asad Zaman (2013): “Islamic economics is the *effort/struggle*³⁰ to implement the orders of Allah pertaining to economic affairs in our individual lives (micro), in our communities (meso), and at the level of Ummah (macro).” This definition underlines the importance of the three main levels at which Islamic economics can be applied. It can be added here that the cornerstones of Islamic economics are Islamic jurisprudence and Islamic ethics.

By taking into account all of the above, the aim of this paper is to critically examine the concept of human capital. In this context, we utilize in particular the perspective of Islamic economic jurisprudence.

With respect to the methodology of this study, we follow a critical approach against a common methodology followed in Islamic economics. Today, it is a common practice in studies related to Islamic economics to take the modern concept of mainstream economics without evaluating its peculiarities and considering whether it can fit into the general framework of Islamic perspective, then attempting (even pushing) to find a corresponding concept in Islamic literature. Details of our methodology in contrast to this will be explained below.

The main importance of the subject comes from the fact that human capital is connected to some other concepts, such as the means of production. Thus, a better understanding of human capital can help us to understand the related concepts and relations built around these concepts.

The structure of the paper is as follows. The next section will clarify the methodology of this work. The third section will give background information and set out a literature review. The fourth section will be an evaluation. The fifth and last section will conclude the paper.

2. Methodology

It was mentioned above that our methodology is based upon a critical approach. In contrast to the aforementioned methodology followed in current studies within Islamic economics, first, we do not take the concept of human capital as given. Instead, by critically analyzing its development, we show that this concept is not a new invention but has since the very early times been already known and taken into account. At this point, a question emerges: “then, why was such a concept developed?” In the second step of our critical approach, we show that this concept was developed because of the transformation of the Western world’s mind-set, which started with modernization.

These two steps do not lead us to attempt (even to push) to find a corresponding concept in Islamic literature. Instead, they lead us to a more critical search of the concept or its meaning in the literature. Thus, the third and main step of the methodology of this study depends on an examination of the concept of human capital, or, more correctly, what it refers to in Islamic economic jurisprudence. The reason why we wrote “what it refers to” is because, while the concept is new, the classic Islamic literature is not. With respect to this third step, we take into account two aspects of economic relations and issues: contract conditions and the source of value.

3. Background information and literature review

In this section, we will first concentrate on the development of the concept of human capital in mainstream economics. Then we will focus on the labor–capital relationship and the concept of human capital in Islamic literature.

3.1. Development of the concept of “human capital” in mainstream economics

Despite the term not being used directly in his work, the first reference to human capital is generally attributed to Adam Smith. This attribution is not out of place since in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Smith (2005, 1776) explains that fixed capital at the national level consists of all useful machines and instruments of trade, of all profitable buildings, of the improvements of land, and of *the acquired and useful abilities of all the inhabitants and members of the society*.³¹

While investigating the historical roots of the concept of human capital, Kiker (1966) mentions some names who considered human beings and/or their skills to be capital. Adam Smith is included among those names, but another name mentioned by Kiker is Irving Fisher. Hodgson (2014) notes that the first official appearance of the term “human capital” was in an article by Fisher. In fact, Fisher (1897) writes that “The most natural classification of capital in its first sense is into human capital, land capital, and what for want of a better name we may call products.”

Accordingly, whether we take the indirect use of the concept in 1776 or the first direct use of it in 1879, we can easily say that human capital is a modern concept. However, even though

the term did not exist before that, its inherent meaning has long existed in human life. At this point, we first need to clarify the inherent meaning of human capital. As was explained in the introduction, in a general sense, what is meant by human capital is any attribute pertaining to human beings in producing economic value. The attributes in question can be an ability, a talent, intellect, wisdom, and so on. Here, we need to ask; “were not these and similar attributes taken into account in earlier times?” The answer is yes.

Then, if the importance of human attributes has been well-known and appreciated since ancient times, why was an independent concept needed? This is an important question to be answered. In fact, this has a lot to do with modernization and its effects on minds and points of view, because, first and foremost, a major change occurred regarding the understanding and evaluation of capital.³² The concept of capital, from which human capital is derived, had been used in a monetary sense before industrialization. Its meaning then shifted toward the means of production. In the neoclassical era, the meaning of capital focused on physical capital. Today, the borders of capital have extended even further with the inclusion of neo-capital concepts such as human capital, social capital, and so on. For the transformation of the meaning of capital, see Cannan (1921) and Hodgson (2014). Despite its long journey, there is still no consensus regarding what is meant by the concept of capital. Conversely, the transformation of the meaning of capital has been accompanied by serious problems. Three main problems in this regard are: the confusion of interest with profit – especially because of the marginalist approach; the problem of measurement; and problems related to the inclusion of neo-capital concepts. This last problem will be explained in detail below.

Second, an intense desire for measurement and quantification appeared with industrialization. There has also been a similar impetus behind the development of the concept of human capital, i.e. the measurement of the effect of the human attributes. Regarding this, Kiker (1966) explains two methods that have been used to estimate the value of human beings: the cost of production and the capitalized earnings procedures. Kiker continues by explaining that one of the first attempts to estimate the monetary value of human beings was made around 1691 by Sir William Petty. However, the first scientific study in the subject was by William Farr in 1853. On the other hand, Ernst Engel preferred a cost of production procedure around 1883. In addition, Dublin and Lotka made calculations of human values in 1930. Kiker argues that the works of Farr and Dublin and Lotka should be the starting points for anyone who is interested in estimating either human capital values or their components. It is no surprise that the early quantification attempts corresponded to the early period of industrialization. It is also interesting to note that both Petty and Farr are from England, the birthplace of industrialization. From a wider perspective, van Leeuwen (2007) states that “The notion of human capital arose out of the awareness that physical capital alone was not enough to explain long run growth.” This is why empirical studies have been dedicated to measure the effect of human capital on growth. However, this does not mean that the quantification of human capital can be achieved without issues. The problems in that regard will be explained below.

The concept of human capital became more prevalent with the work of Schultz (1961). Schultz starts his famous article by explaining the reasons why people were shying away from considering human capital as capital. According to Schultz (*ibid.*), “The mere thought of investment in human beings is offensive to some among us. Our values and beliefs inhibit us from looking upon human beings as capital goods, except in slavery, and this we abhor.” Schultz confirms that human resources have both quantitative and qualitative dimensions. In that regard, the practice of estimating the magnitude of capital formation by the expenditure made to produce capital goods also suffices for the formation of human capital. However,

differently from physical capital, there is difficulty in distinguishing between expenditure for consumption and for investment.

Even though there is no consensus regarding the definition of human capital, the following quotation can give us a clue about the point which the concept has reached today. According to an OECD Report (2001), human capital is “[t]he knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being.”

If we take the 1960s as the beginning of the development of the concept of human capital in the modern context, it should be said that this half-century of development has not been without problems and criticism. We can categorize the main problems and criticisms related to the concept of human capital as follows: (i) the measurement problem; (ii) the noncollateralization problem; and (iii) criticism from a Marxian perspective. In relation to the first issue, van Leeuwen (2007) explains that, “even when a narrow definition of human capital is used, calculating a human capital stock series in monetary terms is very data-and-time-intensive.” He explains that this is why using educational stock as a proxy is popular. But this is not immune from problems either. For instance, enrolment ratios are flow, not stock. Besides educational stock, there are income-based and cost-based approaches. However, as argued by van Leeuwen, these methods create difficulties if they are intended to be put into growth regressions. It should be added here that, even if human capital can be measured despite all these difficulties, the bigger problem of valuing it remains.

In terms of the second problem, Hodgson (2014) argues that “the capitalist can borrow money on the basis of the collateral in her owned factories or machines, but the worker has no such collateral.” Thus, Hodgson (*ibid.*) suggests with sarcasm that “[i]f we can have human capital, then we have to find another word to describe collateralisable capital.”

Regarding the third issue, Bowles and Gintis (1975) argue that “[t]he theory of human capital, like the rest of neo-classical economics, ultimately locates the sources of human happiness and misery in an interaction of human nature with nature itself. This framework provides an elegant apology for almost any pattern of oppression or inequality.”

In sum, human beings’ attributes have been taken into account and appreciated since early times. In that sense, the concept of human capital is nothing new. What is new is the transformed mind-set of modern people regarding economic concepts. Furthermore, the desire of modern people in measuring the quantified effect of everything in value creation is also new. In this context, the concept of human capital was generated because the understanding of capital was transformed by industrialization, and also because of the emergence of the desire for measuring each and every factor of growth. However, as explained above, this does not mean that this newly generated concept is free from problems.

3.2. Labor–capital relations and the human capital concept in Islamic literature

As was explained in the previous subsection, human capital, as a concept if not a term, was known in earlier times. This was also valid for Muslim communities. At that time, human beings’ attributes were implicit in labor. We can give the following Hadith example in that regard:

1. Narrated Aisha: Allah’s Apostle and Abu Bakr hired a man from the tribe of Bani–Ad–Dil as an expert guide who was a pagan (follower of the religion of the pagans of Quraish). (Sahih al-Bukhari, vol. 3, Book 36, 465)

It can be seen from the Hadith that a person was hired especially because of his expertise. One can also visit the labor–capital partnerships in Islamic history in which labor can attract higher profit sharing ratios depending on his/her attributes. Furthermore, at earlier times, labor was accepted to be the main source of value, whereas capital was seen as derivative of it. This is also what has changed with modernization: capital started to be seen as the basic source of value.

In Islamic literature, the focus on labor dates back to the Middle Ages. It is commonly argued that Ibn Khaldun (1332–1406) is the first scholar in the history of economic thought who stated labor to be the main source of value. In his famous book *Muqaddimah*, Ibn Khaldun (1375) writes that “labor is the real basis of profit.” Such a description implies that differences pertaining to labor arising from different human attributes cause different profits. In relation between labor and capital, Ibn Khaldun (*ibid.*) writes that

the capital a person earns and acquires, if resulting from a craft, is the value realized from his labor. This is the meaning of “acquired [capital].” There is nothing here [originally] except the labor, and [the labor] is not desired by itself as acquired [capital, but the value realized from it].

(*ibid.*)

The focus on labor in Islamic literature continued after Ibn Khaldun. One can see Azid’s survey (2005) regarding the concept and nature of labor throughout Islamic history. However, Islamic studies discussing the nature, properties, and calculations of labor needed to wait until the second half of the twentieth century to flourish. This was also the period of the establishment of Islamic economics as a separate field of research. The reasons for such a phenomenon need further investigation but, based on the above explanations, it can be said that there was no endogenous transformation related to the meaning of capital within Islamic economic history. As comparison of the understandings of the concept of capital, Sadeq (1989) argues that “a fixed return on capital is not allowed in Islam, but a fixed return on a building (rent) is allowed and, therefore, building cannot be termed as capital.” Furthermore, Sadeq argues that, unlike mainstream economics, produced means of production cannot be accepted as capital from an Islamic perspective. It should be noted that changes in understandings of the concept of capital and how it is evaluated in today’s world from an Islamic perspective need detailed research.

Works in Islamic economics which deal directly with the concept of human capital have started to take place more frequently over around the last decade. Many works related to human capital in Islamic economics underline its importance due to its potential impact, as works in mainstream economics usually do. In that regard, Thaib (2013) and Yusoff (2011) mention the potential effect of human capital on a country’s development.

As another group of works, we can see that there has been an attempt to combine Islamic aspects and the human capital concept. In this context, Rafiki *et al.* (2014) define “Islamic human capital” in a way that encompasses the aspects of both worldly life and the hereafter, and which instructs Muslims to seek not only profit maximization but also *maslahah* (the public interest). Abu Samah *et al.* (2011) discuss the contribution of the management practices and skills of the Prophet Muhammad (pbuh) for human capital development. Hashi and Bashiir (2009) explain that, while conventional theories of human capital development take human life as an ascending process with continuous transformation and change, the “*tawhidic* conception of Islam” is based on metaphysical principles and ethical values.

For a last group of works, we can mention alternatives. In his study, Choudhury (2012) prefers to use human *potential* instead of human *capital*. This is not only a matter of conceptualization; it is deeper than that because, according to him, old mainstream postulates such as optimality, steady-state equilibrium, predictability, and the permanence of economic rationality are inherent in the human capital concept. Thus, it cannot fit into the phenomenology of the evolutionary learning model of Islam. As a more theoretical criticism, Zaman (2009) argues that the

[u]se of the terms “human capital”, human resource development and development of job skills and productivity as a means of progress highlights the currently dominant view of humans as an input to the production process. This contrasts with the Islamic view that the development of human beings is the goal whereas the production resources, etc. is only useful to the extent that it is a means to this goal.

In sum, human attributes which contribute production and value creation have all long been known and appreciated by Muslim communities. All of these attributes were taken as inherent in labor. This phenomenon is also connected with the great importance bestowed upon labor. Therefore, it is no surprise that labor was named the main source of value at an early time, around the fourteenth century. Since both the effect of industrialization on understanding the concept of capital and the desire for quantification came much later (and also not in the same level and manner) to Muslim communities, detailed investigation regarding labor and the development of a separate term for human capital had to wait until the birth of the modern discipline of Islamic economics in the twentieth century. Works related to human capital have been more visible within the field, especially over the last two decades. Some of these works attempt to combine Islamic aspects with human capital, while the main body of works either takes the term as given and attempts to find a correspondence to it from within Islamic literature or takes the importance of the term due to its potentiality. There is also a scarcity of work that attempts to provide a critical, alternative point of view.

4. Evaluation

In this section, we will investigate the concept of human capital from the perspective of Islamic economic jurisprudence. In that regard, there are two important points that can guide us. The first point is, in a way that is distinct from the potentiality aspect of human capital, labor is related to finality. This is why labor, not human capital, is the issue in Islamic economic jurisprudence, because only labor can be the subject of a contract. We can mention the following Hadiths in that regard.

- i) Malik said, “If any of that enters the *qirad* [capital–labor partnership], it becomes hire, and hire is only good with known and fixed terms” (Malik 2005, Muwatta, Book 32, Hadith 6).
- ii) It is not permitted for an investor to stipulate to an agent (in *qirad*) to only buy from a specific person. That is not permitted because in doing so he would become his employee for a wage. (Malik 2005, Muwatta, Book 32, Hadith 6)

These two Hadiths show that labor can be the subject of two types of contracts: partnership and hiring on contracts based on known and fixed terms. By “known and fixed terms,” we

mean aspects such as well-defined tasks, times and salaries. For partnership contracts, it has been said before that labor can get higher sharing ratios in consequence of his/her attributes. In either case, while a human being can have *potentiality* depending on his/her educational background and so on, as long as this person does not actualize this potentiality it would not be reflected in the final result, whether that is salary or profit. In other words, this person's potentiality is taken into account only insofar as it is the fulfillment of the contract conditions. Thus, human capital can never be a contract subject.

The second point is related to sources of value. For instance, when the economic value of profit is created as a result of a partnership agreement, for Hanafis and Hanbalis, the right to profit arises because of three things: capital, work, and *daman* (liability). The work here is that which is contracted for labor. Thus, there is a direct connection between value creation and labor. However, there is only an indirect connection between human capital and value creation since human capital is in *potential* form. In relation to this point, Imam Muslim writes the following in the Introduction to the *Transactions of Sahih Muslim* (n.d., 2000): "it is not only the capital invested that brings profit which is equally the result of initiative, enterprise and efficiency of the entrepreneur . . . A person reaps a benefit after undergoing labour and hardship." It can be noticed that he mentions human attributes like initiative, enterprise, and efficiency under the label of labor. In respect to this second point, one can also turn to Ibn Khaldun, whose relevant ideas were explained above.

Ultimately, labor, including human attributes instead of a concept like human capital, is the subject matter of Islamic economic jurisprudence for two basic reasons: only the former can be the subject of a contract, whether it is hiring or partnership, and, second, there is a direct connection between labor and value but not between human capital and value. Both of these reasons depend on the potentiality aspect of human capital. This is probably also the reason why Choudhury calls his alternative human capital concept "human potential." Thus, the perspective of Islamic economic jurisprudence is quite strict and well defined in that regard. This is also why concepts such as intellectual capital cannot be based upon Islamic jurisprudence. Only with the birth of Islamic economics could the issue of human attributes as separate notions under the label of human capital or alternative descriptions be evaluated separately from the jurisprudential perspective.

5. Conclusion

In this article, we attempted to examine the concept of human capital critically. In doing this, we first argued that, despite what it refers to being understood well before modern times, the concept of human capital was developed for two basic reasons: conceptual and mental transformation and the urge for quantification. Both of these reasons have close connections with industrialization, which started in the Western world. The point here is not to discuss the legitimacy of each and every concept developed in the West but to show the massive impact of modernization and how it created a sharp disengagement from earlier times, although such an impact and disengagement are not always positive, as in the case of the concept of human capital, because of some problems listed and explained throughout the paper.

Then, in continuation of our critical approach, we examined the concept from the perspective of Islamic economic jurisprudence. We concluded that labor, including human attributes, rather than a concept like human capital is the subject matter of Islamic economic jurisprudence for two basic reasons: only labor can be the subject of a contract, whether it is a hiring

or partnership contract; and a direct link only exists between labor and value, not between human capital and value. We also underlined that both of these reasons are closely related to the potentiality aspect inherent in the concept of human capital.

We also argued that only with the birth of Islamic economics in the twentieth century could the issue of human attributes as separate notions under the label of human capital or alternative descriptions be evaluated separately from the jurisprudential perspective. We supported this with relevant works from within the literature of Islamic economics.

It should be noted here that this paper did not aim to redefine an alternative concept, since such an aim needs to transcend the borders of Islamic economic jurisprudence and take different aspects of Islam (such as morality) and economics (such as theory of value) into consideration. We would like to mention that Choudhury's attempt (2012) is noteworthy in that regard.

Notes

- 29 Here we will not go into detail regarding the discussions of whether economics can be described as Islamic or whether, indeed, an Islamic economics is possible. Furthermore, the reasons of why this discipline emerged as late as the twentieth century necessitate separate research. For further reading on the history of Islamic thought in economics, and on Islamic economics, see El-Ashker and Wilson (2006).
- 30 The italicized words belong to Zaman himself.
- 31 Italics belong to us and represent the implication of human capital.
- 32 It is difficult to say whether changes in points of view regarding capital paved the way for modernization or vice versa. Maybe it is more correct to say that both are valid.

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The concepts of labor, workers' rights, and migration in Islam

Latife Reda

Introduction

The research paper aims to set the basis for the study of the evolution of the concept of migration and the socioeconomic aspects of the religious concept of *hijra*. The research draws on the sources of Islamic law and doctrines related to labor and the rights of workers, while keeping in mind the modern standards of the regulation of employment and workers, both national and migrant. The paper will then discuss both classical religious interpretation and application of *hijra* and point to the question of how *hijra* was redefined by modern Islamic thinkers with the advent of Muslim migration for labor to non-Muslim lands. The objective of this paper is to set the foundations for an understanding of the regulation of labor and, by extension, labor migration, as actual national labor laws in Muslim-populated countries that apply to both national and migrant workers lack many of the basic elements of an appropriate system of labor regulation.

Social justice and the Islamic conception of labor

Law, rights and the status of labor in the Islamic tradition

Laws and legal practice, regardless of their origins, context, and historical development, are primarily based on a community's conceptions of right and wrong. Islam has provided the moral foundations of the law, government, and society for centuries in today's Muslim-populated nations in the MENA region. Hence, it is not surprising that nations with large Muslim populations and a centuries-long Islamic legal and political history base their contemporary approaches to morality and, in some instances, the creation of new laws on the Islamic tradition.³³

In one way or another, Islamic legal sources still influence the moral structures and approaches to the law in Muslim societies. Islam is generally regarded as a way of life, that is, a worldview that offers a comprehensive value system to guide believers in every aspect of their lives. Since the establishment of a government in Medina by the Prophet Mohamad (pbuh), each and every state that followed was based on an interpretation of the Islamic way of life; that is, up to the dissolution of the Ottoman Empire, political and legal structures since the emergence of Islam were, in one way or another, Islamic. This is the reason why the Holy Scripture (the Qur'an) and the sayings and actions of the Prophet (Hadiths) are still considered the ultimate sources from which binding promulgations are derived. The sources extensively cover many aspects of social life, from family affairs, marriage, and divorce to

political organization, economic relations, and the rights and responsibilities of Muslims and non-Muslims living under Islamic rule.

As a matter of fact, the Islamic conception of rights within the law was fully developed by the sixteenth century.³⁴ Hence, there has been a strong position within the Islamic community on the abuse of rights as “the doctrine prohibiting the abuse of rights had come to enjoy the consensus of Muslim jurists.”³⁵ For instance, early emphasis on rights was initiated by the influential eleventh-century Islamic jurist and philosopher al-Ghazali as a reaction to the Shafi’i school, which rejected the idea of absolute rights,³⁶ especially with regards to the rights of women and matters of personal status and property. In the later tradition, the *nahda*, or Islamic revivalist scholars (from the mid-nineteenth century to the beginning of the twentieth century) gave attention to the approach to rights contained in the sources of Islamic law. Abul ‘Ala Mawdudi equated the Western conception of human rights to Islamic legal principles; in his work, Mawdudi expounds the rights to life, basic standards of living, freedom, justice, non-discrimination, and justice found in the Qur’an.³⁷ For Mawdudi, “Islam does not seek to restrict human rights or privileges to the boundaries of a state. He further argues that Islam has laid down universal fundamental rights for humanity which are to be observed and respected in all circumstances.”³⁸

When it comes to work and occupation in particular, the Qur’an and the Sunnah pay no less attention to the status of labor in the economic progress of the Islamic civilization; the religious promulgations discuss work as a dignifying activity and the moral value of and need for labor.³⁹ Work, especially hard labor, has traditionally been seen as an honorable and respectable activity after the advent of Islam.⁴⁰ It is argued that the Islamic approach to labor as an exalted activity is partly a reaction against the oppressive rulers of the pre-Islamic society.⁴¹ Further, prominent medieval Islamic scholars such as al-Ghazali and Ibn Khaldun emphasized the contributions of labor and the different occupations to the maintenance of “worldly order” and developed theoretical approaches to the division of labor. Al-Ghazali, for instance, contended that, while no one has an obligation to perform a certain task, all occupations are equally important because “they enable people to provide for their families and are necessary for society as a whole.”⁴² Ibn Khaldun’s sociological method is based on the categorization of social life, which relies on his observations on the use of the means of production and subsistence; in fact, Ibn Khaldun highlights the central role of all “crafts” or occupations and the need for economic interdependence in the development of human civilization, and portrays manual labor performed by the Bedouins as a more dignifying and healthier lifestyle.⁴³

Two important principles of Islamic economics are related to the regulation of modern labor relations: the principle of distributional equity and the principle of productivity and work. With further developments in Islamic economics, labor was increasingly seen as sacred because it contributed to human progress, economic growth⁴⁴ and collective welfare. In the Qur’an, references to work as a source of honor such as “[s]ay work and Allah will see your work”⁴⁵ and “there is nothing for a person except what he strives for”⁴⁶ are evidence of this. Similarly, the Prophet has been reported to have exalted labor by stating that “nobody has ever eaten a better meal than which one has earned by working with one’s own hands. The Prophet of Allah, David, used to eat from the earnings of his manual labor.”⁴⁷

Because work and physical effort are matters of life and subsistence, religions like Islam and Christianity put great emphasis on the afterlife, which binds believers to lead a life worthy of the rewards of God after death. However, the Qur’an also offers a more complex portrayal of

the relationship between the material life and life after death. The Qur'an portrays work and effort in the material life as a way to lead a dignifying life and a means to acquiring the rewards awaiting them in the afterlife: "The reward is forgiveness from their Lord, and Gardens with rivers flowing beneath [in Paradise], wherein they will abide eternally; and excellent is the reward of the [righteous] workers."⁴⁸

On the issue of migration for work, the Qur'an refers to the migration of persecuted believers from Mecca to Medina during the formative years of Islam. The migration, although it was mainly due to religious persecution, can be also understood as an activity that is motivated by any form of oppression. The Qur'an recognizes the efforts of the first believers to build a civilization and a government in Medina in the following Qur'anic verse:

And their Lord responded to them, "Never will I allow to be lost the work of [any] worker among you, whether male or female; you are of one another. So those who emigrated or were evicted from their homes or were harmed in My cause or fought or were killed – I will surely remove from them their misdeeds, and I will surely admit them to gardens beneath which rivers flow as reward from Allah, and Allah has with Him the best reward."

The Islamic moral, legal, and political tradition and principles still affect the way many aspects of social life are perceived in Muslim-populated countries. Although most Arab countries with Muslim majorities did not establish a new model of Islamic governance after the creation of the nation-states in the twentieth century, labor legislation in countries such as Egypt and Saudi Arabia have drawn upon the different Islamic perspectives of human relations and the principles of the ideal Islamic society.⁴⁹ Even more recently, during transitional periods in some countries such as Iraq, legal reformists have brought arguments based on the Islamic body of laws and jurisprudence in order to reform the labor code.⁵⁰

Therefore, the influence of Islamic values on the formation of legal codification of modern Arab states found in the contemporary processes of constitutional reform is due to the strong precedence of "the principles of labor law [that] can be found in Muslim legal discourses as early as the formative years of the Islamic faith."⁵¹ This emphasis is also due to the prevalence of a long tradition of Islamic political and legal structures.⁵² Even in countries like Lebanon, where there are large Christian and Muslim minorities and where legal practice is not directly derived from or influenced by Islamic legislation, the pronouncements of religious leaders and learned Islamic scholars, or *ulema*, have a resounding impact on the societies and governments.⁵³

Contractualism and employment relations in Islamic teachings

While there is no clear legislation on labor in the practice of Islamic governance, contractual relations have been a common practice among the Islamic community since the time of the Prophet and during the Caliphates.⁵⁴ The definition of contracts in Islam is similar to that of the common law: one person benefits from the requested services of another, but the terms of contract are only validated by the "consent of both parties, competency in terms of age of majority and clarity of wages and other benefits."⁵⁵ The basic provisions of a contract according to Islamic practice must state both the duty of the employer to pay for the service provided and the responsibility of the employee to perform the work. The Qur'an covers in detail the regulation of contracts in general, especially with regards to commercial contracts. But these

general provisions can be applied to the regulation of employment relations. As a matter of fact, the Qur'an makes direct reference to the importance of written contracts: "Believers! When you deal with each other in transactions involving future obligations in a fixed period of time, reduce them into writing."⁵⁶ The following passage goes on to deal more specifically with the aspect of the protection of both parties (although in this case it does so in reference to a written contract of debt): "That is more just in the sight of Allah, stronger as evidence and more likely to prevent doubt between you, except when it is an immediate transaction which you conduct among yourselves."⁵⁷

Although employment contracts are not based on equal relationships, such as when the worker in need of employment to earn a living is often ready to accept adverse terms of employment, Islamic scholars have argued that contracts made on unequal footings are illegal according to Islamic law. Therefore, a contract is valid only if the contracting parties have full freedom in negotiating the contract, if there is equality of bargaining power and no coercion exists, and if the terms of the contract are in accordance with Islamic values and teachings. In addition, there are numerous references in the Qur'an to the importance of fulfilling duties, respecting contractual relations, and complying with all that one has committed to do.⁵⁸ These values are addressed to all Muslims equally regardless of profession, economic status, ethnic background, or position in service and employment relationships. Although there is no standard contract derived from Islamic legislation, the elements that an employment contract must take into consideration can be either implicitly or explicitly derived from Islamic sources and the interpretations of Islamic scholars. The fundamentals that create the desired equilibrium in the employer–employee relationship are the fair and timely payment of wages, decent work and living conditions, equality and non-discrimination, social security, and the right to collective bargaining and freedom of association.

Wages

Islamic texts also include moral guidelines on wages and deal with issues regarding the protection and well-being of wage-earning workers. According to the Hadith of the Prophet, the payment of wages to laborers "even before their sweat is dried up" directly refers to timely payment for work or service performed and is interpreted as an "unparalleled attempt to satisfy [the workers] materially, as well as psychologically."⁵⁹ In principle, by prioritizing fair and timely payment in labor relations, this Hadith encourages the promotion of a balanced relationship between labor and production through the recognition of the value of labor. The Hadith implies that, first, labor is often underappreciated (in proportion to the value of production); second, productivity, capital, and economic growth cannot be achieved without the essential contributions of workers; and, finally, that finding equilibrium between labor and capital is essential for social welfare and the common good.⁶⁰

Full and equal pay is also mentioned in the Qur'an. The Book commands that "believers [should never] withhold from the people the things that are their due: commit not evil in the land with intent to do mischief."⁶¹ The following verse also serves as a reference for not only the binding status of pay in Islam but also the principle of equal pay for both men and women: "Never will I suffer to be lost the work of any of you, be they male or female."⁶² The principle of equal pay for equal work is also encapsulated by the following verse: "For men there is reward for what they have earned (and likewise) for women there is reward for what they have earned."⁶³ Hence, according to the Qur'an, wages for work performed must be duly paid in full to the worker regardless of gender or occupation. Non-payment of wages

is hence highly condemned in the Islamic tradition. It is reported that the Prophet condemned three types of people and regarded them as the enemy; one of them was “the man who employs a worker on wages then takes the full measure of work for him, but does not pay his wages.”⁶⁴

Working and living conditions

Overburdening and the unfair treatment of workers are prohibited by the Islamic sources of the law. The Qur’an also stipulates that an employer must treat their subordinates and employees with care and compassion: “yet do not expose yourselves to ruin through your own hands. Do good; Allah loves those who act kindly”⁶⁵; the Qur’an also mentions and prohibits overburdening in the general sense: “God only assigns a soul something that it can cope with.”⁶⁶ More specifically, the Prophet addressed the issue of the overburdening and mistreatment of workers directly; a reported Hadith, or saying, calls on employers to recognize that the welfare of the people who work for them is the employer’s responsibility:

[Y]our servants are your brothers whom Allah has placed under your authority. Whosoever has one under him, should feed him of what he eats, clothe him of what he clothes himself, and must not burden him beyond his capacity and ability. But if you do burden them beyond their capacity, then help them.⁶⁷

This Hadith also emphasizes both the equality between employer and employee in terms of living conditions and the importance of determining the nature and duration of work. In addition, the call for safe working conditions is also covered by the Hadith of the Prophet. Ibn Hazm reported that the Prophet promulgated that “It is the duty of the employers to take only such work from their employees that they can easily do. They should not be made to labor so that their health is told upon.” Finally, general guidelines on rest and leisure are also found in the Qur’an. According to Islamic doctrines, as in other monotheistic religions, taking days of rest is a basic need for every human being: “And out of His mercy He made for you the night and the day that you may rest therein.”⁶⁸ In the Hadith, there are also clear statements on rest and leisure.

In the later tradition, modern Islamic reformists reinterpreted the Qur’anic doctrine of *Zakat*, or charity, which was established to benefit the poor and avoid wealth concentration in order to reinforce the link between the principle of redistribution and the right to decent living standards. Mawdudi asserted that the Qur’anic verse “and in their wealth there is an acknowledged right for the needy and destitute”⁶⁹ is a clear declaration of the right to a basic standard of living for all peoples “irrespective of whether he belongs to this or that nation, to this or to that country, to this or to that race.”⁷⁰

Social security

The basic principles of social security can also be found in one of the two pillars of Islamic economics: the principle of *Zakat*, a practice that facilitates the fair redistribution of income. The promotion of equitable distribution of resources in the society gives the whole population a right to a basic standard of living through basic state pensions. Basic living standards are ensured through the imposition of *Zakat* on the rich for the purpose of preventing poverty: “this wealth may not become a fortune used by the rich among you.”⁷¹ Hence, the principle of

equitable distribution dictates that *Zakat* is to be taken from the affluent and then distributed and spent on the welfare of the poor.

In fact, the Islamic principle of redistribution is important for the well-functioning of the economy because it recognizes that the management and enjoyment of wealth by a small group of people happens only at the expense of the interests of the entire community and “creates the menacing vice of sky-high economic imbalance between the two classes of society: the haves and have-nots.”⁷² Thus, the tradition dictates that it is a collective responsibility of society and the government to provide the less privileged with all the basic necessities of life. If this is not fulfilled, the government and society will lose God’s protection, since the redistribution of wealth and the provision of decent living conditions for all members of the community are essential for the maintenance of a virtuous and authentic Islamic way of life. Hence, through the practice of *Zakat* the Islamic doctrine promulgates that all people have an equal right to earn a living through work and to have equal access to the means of production and to benefit from them.⁷³ Avoiding poverty and the exploitation of wealth is the main objective behind the extensive coverage of property ownership in the sources of Islamic law, especially the Hadiths.

Equality and non-discrimination

Traditionally, there has been a strong emphasis on diversity in Islamic thought and law. There are many Islamic schools of thought from which different approaches to the law derive. However, these approaches are only considered to be Islamic if they comply with the fundamental moral values found in the Qur’an and the Sunnah. In addition, the expansion of the Islamic states facilitated the movement of people from distant regions to others. The Islamic intellectual tradition has benefited a great deal from the migration of people and from cultural exchange facilitated by blurred territorial boundaries, which have contributed to the advance of Islamic science, gnosis, economics, and the arts. Inclusion, tolerance of diversity, and exchange helped build a rich Islamic civilization in the past; in contrast, the failure to accommodate to the changes in territorial movements and the restrictions on migration, which translated into a lack of commitment to the appropriate legal framework to regulate labor migration and provide protection to foreign workers, values found in both international law and Islamic teachings, has resulted in the mistreatment of migrant workers and serious human rights violations across the Arab and Muslim worlds. Muslims are racially very diverse due to the freedom of movement caused by the expansion of the Islamic empires. But, even before the expansion, the Prophet had promulgated that

no Arab has any superiority over a non-Arab, nor does a non-Arab have any superiority over an Arab. Neither does a white man have any superiority over a black man, nor does the black man [have] any superiority over the white man. You are all the children of Adam.⁷⁴

Therefore, this general statement shows that it is a fundamental value in Islam that no person can be discriminated against based on the color of his or her skin. The revivalist thinker Mawdudi contributed to the modern notion of equality by reanalyzing the promulgations of the Qur’an regarding equality and non-discrimination. Mawdudi confirms that feelings of superiority based on nationality are unjustifiable and unacceptable in Islam, and asserts

that God judges human beings according to their moral character and not nationality, ethnicity, or skin color.⁷⁵

In the same vein, the concept of equality and non-discrimination in Islam is also applicable to employment relations. The link can be drawn from the extensive attention given to the treatment of workers in the Qur'an and Hadith. The Qur'an commands that there should be no distinction between the "master" and the "servant," and that the creation of hierarchical relations is a practice among believers to demand services from others and exert control over employees:

Do they distribute the mercy of your Lord? It is we who have apportioned among them their livelihood in the life of this world and have raised some of them above others in rank so that they may make use of one person for service. But the mercy of your Lord is better than whatever they accumulate.⁷⁶

This excerpt from Surat az-Zukhruf states that the creation of classes based on social or economic status is used to exert control over others and dissociates it from Islamic values by implying that class and status have no relevance next to the mercy of God.

However, while stratification has not been completely disregarded in the Islamic tradition, it has been redefined by prominent Islamic scholars. As the Qur'an and the Hadiths recognize that there are intrinsic differences between people due to the diversity of interests and capabilities among them,⁷⁷ medieval Islamic sociologist Ibn Khaldun, for instance, categorized occupations based on the argument that all kinds of work are complementary and mutually beneficial and constitute the core of social cohesion.⁷⁸ The Islamic view of equality in employment relations is also encapsulated in the following Hadith, reported by Al-Bukhari: "He who has his brother as his subordinate should give him to eat from what he himself eats and to wear what he himself wears, and put no burden of labor on them that may exhaust them."⁷⁹ In addition to this, the Prophet and his companions earned their livelihood through work and frequently called upon the community not to reject or look down at any occupations.⁸⁰

Unionization

Although unions and workers' organizations as such did not exist during the rule of the Islamic governments, unity and collective action are central to the pursuit of social justice in Islam. On the one hand, the Qur'an, Hadiths, and the historical development of the Islamic community have shown strong commitment to the fight against oppression. On the other hand, the sources as well as the works of influential Muslim thinkers have dealt extensively with the guidelines for social organization by promoting unity, group feeling, and brotherhood. The Islamic tradition is characterized by its many approaches to understanding the collective, fighting oppression, maintaining social cohesion, and promoting unity, cooperation, and support among believers and non-Muslim members of the community.

The Qur'an offers basic pronouncements for the encouragement of cooperation and brotherhood; verse 2 of Surat al-Mai'dah reads: "Cooperate with one another for virtue and righteousness, and do not cooperate in sin and aggression."⁸¹ As such, uniting for a noble cause, taking action against injustice, and resisting oppression in every aspect of life are highly encouraged by the Qur'an; the following verse is another example of this: "Permission to fight is given to those who are fighting because they have been wronged, and surely Allah is able

to give them victory.”⁸² In Surat al-Nisa’, acting against oppression and seeking protection for the oppressed are encapsulated in an obligation contained in the following verse: “How should you not fight the cause of Allah and fight for the oppressed among men, women and children. Lord! Take us away from this town and its oppressive people, and send us a protector and a defender.”⁸³ In the Islamic medieval period, the prominent philosophers Al-Farabi and Ibn Khaldun regarded associations of people and cooperation as the keys to survival and preconditions for empowerment. Al-Farabi believed that “only through associations of many people assisting each other, where each provides another with some share of that which is necessary for survival may a person attain that level of perfection to which he is destined by his nature.”⁸⁴ Similarly, for Ibn Khaldun, the two main forces of social organization were *‘asabiyya* (sense of community or group feeling) and *mulk* (power); Ibn Khaldun explained that group feeling was the natural force that gave rise to the communities, and he determined the natural capacity of groups to acquire power, which is necessary for survival.⁸⁵ As set out below, Ibn Khaldun believed that Islam had come to magnify the importance of *‘asabiyya* in the development of the civilization.

The fight against oppression in Islam is organically related to unity. The Qur’an clearly encourages collective action against oppression in the following verse: “The believing men and believing women are allies of one another. They enjoin what is right and forbid what is wrong and establish prayer and give *zakah* and obey Allah and His Messenger.”⁸⁶ Moreover, a proclamation by the Prophet also links the fight against oppression and collective action by stating that it is an obligation to protect the victim of oppression and take action when one is faced with a situation of oppression: “If you do not seize the hand of the oppressor, when you see him exerting oppression, then God will punish you all.” More recent examples of the importance of solidarity and unity among Muslims to fight economic hardship and oppression in all their forms can be found in the influential works of nineteenth-century Islamic revivalist thinkers, such as Jamal-eddine al-Afghani and Mohamad Abduh. Both thinkers believed that the main motive behind the economic hardship, political crisis, and intellectual decadence of the Islamic community was the lack of unity among Muslims. Abduh’s take on the reformation of the Islamic society and its socioeconomic structures emphasized the practice of consultation (*shura*) and consensus (*ijma*) in order to strengthen representation and acquire consensus in decision-making processes. Both Afghani and Abduh advanced the cautious promulgation of laws that can be adapted to modern situations by taking into consideration public interest or the common good of the community (*maslaha amma* or *maslahat mursalah*).⁸⁷

As set out below, the practices related to collective bargaining in the Islamic sociopolitical tradition are consultation (*shura*) and consensus (*ijma*). Traditionally, government decisions were made through the practice of consultation, which is very close to the democratic principle of majority rule. For instance, the Qur’an commands the practice of consultation in the following verses: “consult with them about the matters,”⁸⁸ “their affairs [business] are conducted through consultation among themselves,”⁸⁹ and “let each of you accept the advice of the other in a just way.”⁹⁰ It can be noted in the last verse that consultation is also encouraged because it facilitates support among members of a group and guarantees freedom of expression and the right to representation; in addition, the statement implies that decisions taken collectively best reflect and protect the general interests of the community. Since the Islamic notions of consultation in decision-making processes and union against wrongdoing are essential in the Islamic approach to social organization, the formation of labor unions and other entities that seek to

protect workers and prevent the violation of their rights should be in practice welcomed and encouraged by the Muslim community and its leaders.⁹¹

Labor migration in Islam: the concept of hijra in Islam and an introduction to its socioeconomic underpinnings

As discussed in the previous section, labor and labor relations have been widely covered by the sources of Islamic law. These doctrines and their different interpretations have inspired popular and legal perceptions of labor across the Islamic community for centuries and inspired many modern forms of labor regulation at the national level in Muslim countries. However, in recent years, concerns about the situation of migrant workers, especially low-skilled workers, have been raised by a number of international, local, and nongovernmental organizations. The following section aims to highlight the importance of the conception and practice of *hijra*, or migration, in the Islamic tradition by highlighting its religious value as well as its evolution into a socioeconomic activity motivated by political and economic oppression and deprivation.

Founding principles for regulating migration in the Islamic tradition

As is widely known, migration has been an essential part in the shaping of history. Masses have migrated for economic, political, and religious reasons.⁹² Migration, especially labor migration, is one of the oldest activities in the history of mankind. Historically, these movements enabled the establishment of new relationships and dramatically changed the socioeconomic structures of the nations around the world. The concept of migration is therefore essential to the development of the Islamic tradition. During the formative years of the Islamic civilization,⁹³ travel and migration were important factors behind the preservation and defense of the Muslim community. The term *hijra* means “migration” in Arabic and refers to the migration of the Prophet and its community from Mecca and their settlement in Medina in AD 622.⁹⁴ The initial understanding of migration under the Islamic tradition was that of the lesser move to Abyssinia. Both waves are characterized by the prominent participation of women.⁹⁵ *Hijrah* enjoys a high degree of importance for Muslims because it is seen as a *sunnah* or the deeds and practices of the Prophet.⁹⁶ *Hijrah* at the time had the purpose of fostering the feeling of solidarity and was also characterized by the breaking of bonds with the community in Mecca and the creation of new ties of brotherhood and solidarity with the local people in Medina. In addition, the first and second major migrations of Muslims during the inception years were also characterized by the prominent role of women in the decision-making process. Finally, *hijrah* is discussed also in relation to the migration of some Muslims from Mecca to Abyssinia earlier on.⁹⁷

As a matter of fact, migration was an important issue in defining the factors of unity among early Muslims and the character of their community. *Hijrah* meant to abandon property and previous relations (with Muslims and non-Muslims who did not emigrate) to establish a new community of Muslims in Medina.⁹⁸ To replace these, they create a new relationship of brotherhood and solidarity with the people in Medina. According to Masud, one of the main inferences about *hijra* is the establishment a bond or a relationship of solidarity between the *mujahirin* and the *Ansar* (inhabitants of Medina who supported the Prophet).⁹⁹ This basic

understanding of *hijra* is an important starting point in the understanding of *hijra* as a beneficial activity for the *mujabirin* in the sense that it establishes new relationships of cooperation, whether they are cultural, political, or economic.

The socioeconomic meaning of hijrah: an introductory discussion on the concept of migration in the face of oppression and economic deprivation

The emergence of different conceptions of *hijrah* in Islam is due to the constant geographical changes that affected the structure of the Islamic community. One of the most crucial factors to influence the Islamic understanding of migration is the creation of nation-states in the Muslim world. Despite the fact that *hijrah* in its original moral meaning appeared as a religious obligation for every Muslim, as proclaimed in the Qur'an and Sunnah,¹⁰⁰ it can also be noted that the motives behind the very first migration of Muslims from Mecca to Medina was due to oppression and persecution. Muslims in Mecca were not allowed to practice their faith and continue on the path set by the Prophet. Hence, even in the most common use of the concept, "*hijrah* as the flight of people who are oppressed because of their *din* is part of the thinking of many Muslims who use the concept of *hijrah* in discussions and it has a clear Qur'anic foundation."¹⁰¹ To exemplify this, Voll quotes a verse from the Surah of the Bee that reads: "There are those who emigrated in God's [path] after they had been oppressed. Surely, we will provide accommodations for them in this world that are good and the reward in the next world which is even greater (16:40)."¹⁰² Hence, because oppression is also a recurrent theme in the sources of Islamic law as well as in the history of the Islamic civilization, an important discursive instrument of great allegorical value and a main political argument for the creation of the sects, it can be linked to the understanding of migration motivated by economic hardship or for the sake of better work and living conditions.

There are many verses in the Qur'an that hint at the connection between migration and oppression. The Qur'an does make reference to the nature of *zulm* (wrong) and *fitnah* (persecution) as reasons behind *hijra*.¹⁰³ Ansari explains that "the idea underlying the Islamic teaching regarding *hijrah* is that in order to be able to live righteously, human beings need the right kind of environment."¹⁰⁴ He quotes the Qur'anic verse that reads: "to those who leave their homes in the cause of God after suffering oppression – We will assuredly give a goodly home in this world: but truly the reward of the Hereafter will be greater" (Qur'an 16:41).¹⁰⁵ The verse is generally linked to the migration of Muslims to Medina from persecution by non-Muslims in Mecca; however, in the more comprehensive understanding of oppression that the verse itself offers, it can also include *any* form of oppression. As discussed in the previous section, if labor is highly desired and praised in the Qur'an for the creation and preservation of the Islamic civilization, it follows that a person's work can only be performed under the right conditions. To put it simply, *hijra* for economic oppression may be thus justified and even encouraged.

Ansari offers an interesting explanation for the organic transformation of the understanding of *hijra* from a religious practice to a socioeconomic activity. He explains that the encouragement of migration as a religious practice brought "the consequent intermingling of different peoples and cultural traditions,"¹⁰⁶ which naturally fostered economic growth and mutual benefits for migrant Muslims and receiving communities.¹⁰⁷

The evolution of the term *hijra* has been demarcated by the settlement of Muslims in non-Muslim territories for extended periods of time. The most recent turning point in the reconceptualization of *hijra* is economic hardship and political instability toward the end of

Ottoman rule, the last Islamic government, which started in the nineteenth century. When Muslims started to emigrate for employment and education, the concept of *hijrah* in Islam as a socially and economically motivated activity started to take a more substantive shape.¹⁰⁸ As a matter of fact, influential Islamic thinkers, such as Ibn Arabi, “permitted *hijra* from a land of disease and financial insecurity to a better place.”¹⁰⁹ This was justified by the interpretation of Qur’anic verse 4:100:

And whoever emigrates for the cause of Allah will find on the earth many [alternative] locations and abundance. And whoever leaves his home as an emigrant to Allah and His Messenger and then death overtakes him – his reward has already become incumbent upon Allah. And Allah is ever Forgiving and Merciful.¹¹⁰

Modern theories and revivalist thought brought by revivalist thinkers like Abu’l A’la Mawdudi and Sayyid Qutb also illustrate the evolution of this approach to *hijra* according to its relevance to the reformation of the Muslim community: “the concept of *hijrah* emerges as an important part of their basic socio-theological approach. This has been highlighted by the emphasis given to the concept in the works of their followers, like the ‘Takfir wa al-hijrah’ group in Egypt.”¹¹¹

Nevertheless, the portrayal of *hijra* as an activity motivated by socioeconomic factors in the nineteenth and twentieth centuries remains understudied. It is important to point out that, however, “the concept carries a much broader set of meanings, even when they are in some way based on the specific historical event of the Prophet’s *hijrah*.”¹¹² Voll further suggests that

A study of Muslim conceptualization of the duties of Muslims living outside of Dar al-Islam can reveal, for example, that the concept of *hijrah* played a broader role in Islamic explanations than is often thought. Muslim minorities were often said to have two effective alternatives, either they could exert themselves to transform the society in which they found themselves into Dar al-Islam territories or they should emigrate, that is, undertake a *hijrah*. This line of research reveals material from a variety of areas of the Islamic world where the concept of *hijrah* had this broader meaning. One of the most clearly studied cases is the writings of Usman dan Fodio and the west African revivalist movements of the early nineteenth century.¹¹³

Hence, it is important to explore how the religious concept of migration evolved into a doctrine that recognized oppression and economic hardship as legitimate reasons for migration because this can serve as a benchmark for the understanding of labor migration in the contemporary Islamic world and inspire the development of means of protection for migrant workers living in the Islamic world. Social, cultural, and economic relations have been affected for centuries by the movement of people from one place to another.

Conclusion

Unlike regulations on property, the economy, political structures, legislation, and private affairs such as marriage, divorce, and inheritance, labor itself does not have legal precedents in the formal practice of Islamic jurisprudence. Nonetheless, as evinced by the examples presented

above, there are codes and principles related to labor that can be traced in Islamic sources of the law and the ideas of influential Islamic thinkers and reformists. Because labor is highly valued in the Islamic tradition due to its contribution to the construction and preservation of the Islamic civilization, it follows that workers need the right social and economic conditions to perform their work. When basic conditions are not present, emigrating for the sake of securing better living and working conditions outside the Muslim world may be justified and even encouraged according to the Islamic tradition. Therefore, it is important to explore the evolution of the concept of migration in Islam and its different meanings, especially those that present migration as a socioeconomic practice.

As it is widely known, migration, or *hijra*, has been a common practice among Muslims since the inception of Islam and has always enjoyed a high religious status, as *hijra* is a religious obligation for all Muslims. As discussed previously, migration has been traditionally portrayed as an activity motivated by some form of oppression. With the increase in the number of Muslims who decided to leave their countries to seek better opportunities in non-Muslim countries in the nineteenth century, *hijra* for the purpose of escaping economic hardship was endorsed and redefined by Islamic scholars. Thus, these developments in the concept of *hijra* are applicable to both Muslims and non-Muslims seeking jobs abroad due to a lack of opportunities in their countries of origin. Hence, it is implied that, according to the philosophical and cultural development of the concept and the legal principles applicable to labor found in Islam presented in previous sections, there should not be any distinction between a national worker and a migrant worker. Even though migration took place in a different context during Islam's formative years, the concept of migration is central to religious practice and, as such, continues to enjoy an extremely important position in the Islamic tradition.

Notes

33 Zulfiqar 2007, 423.

34 Ahmad Zaki Yamani 2002, 15.

35 *ibid.*, 15.

36 See Yamani 2002.

37 See Mawdudi 1980.

38 Mawdudi 1980, 11.

39 Azid 2005, 94.

40 Zulfiqar 2007, 432.

41 Pre-Islamic Arabs, *al-jahiliyya*, had a negative approach to manual labor and belittled those who performed it. In fact, someone who does not perform work with his own hands or has an occupation (*al-mihna*) where he could afford to pay others to do his work was considered an honorable person; manual labor was hence considered to be a form of humiliation. See Bayat 1992, 14–15. Hence, this view of *al-mihna* draws back to pre-Islamic times; nowadays, the term *al-mihna* is used to mean occupation in the general sense and is in no way considered to have connotations of humiliation or denigration.

42 Black 2011, 103.

43 See Ibn Khaldun 2005, 91–95.

44 See Rehman 2010.

45 Qur'an, 9:106.

46 Qur'an, 53:39.

47 Hadith, reported by al-Bukhari. See Hassan 2012.

48 Qur'an, 3:136.

49 Zaman 2009, 545.

50 Zulfiqar 2007, 422.

- 51 *ibid.*, 431.
- 52 In non-Arab Muslim countries such as Iran and Pakistan, the Islamic legal tradition highly influenced the countries' approaches to constitutionalism. This resulted in the creation of constitutions that were a form of blend between Islamic legal principles and practices and modern constitutionalism characteristic of the nation-state.
- 53 Influential secular political parties and leaders that emerged during the French mandate in Lebanon, Syria, Egypt, and Iraq. Arab political thinkers like Michel Aflaq (who was himself a Christian), Gamal Abdel Nasser, and secular socialist ideologists based their vision of the ideal modern Arab society and their mobilizing discourse on Islamic principles and historical allegories. Essentially, the political zeitgeist during first half of the twentieth century in the Arab world redefined "Arabism" by readapting the historical weight of the Islamic political, economic, philosophical, legal, and social tradition to the ideas of nation, patriotism, secularism, rights, and governance.
- 54 Hassan 2012, 180.
- 55 Hassan 2012, 181.
- 56 Qur'an, 2:282.
- 57 Qur'an, 2:282.
- 58 See Qur'an, 5:1; 17:34.
- 59 Ahmed 1971, 349.
- 60 Ahmed 1971.
- 61 Qur'an, 11:85.
- 62 Qur'an, 3:195.
- 63 Qur'an, 4:32.
- 64 Reported by al-Bukhari, Hadith no. 470. See also Hassan 2012, 186.
- 65 Qur'an, 2:195.
- 66 Qur'an, 2:286.
- 67 Sahih al-Bukhari, Book 46, Hadith no. 721.
- 68 Qur'an, 28:73.
- 69 Qur'an, 51:12.
- 70 Mawdudi 1980, 19.
- 71 Qur'an, 59: 07.
- 72 See Ahmed 1971.
- 73 Ahmed 1971, 347.
- 74 Hadith, reported by al-Baihiqi and al-Bazzaz.
- 75 Mawdudi 1980, 21–22.
- 76 Qur'an, 43:32.
- 77 Bayat 1992, 20.
- 78 Ibn Khaldun 2005, Chapter 2.
- 79 Sahih Bukhari.
- 80 See Rahman 2010, 21, 48.
- 81 Qur'an, 5:2.
- 82 Qur'an, 22:39.
- 83 Qur'an, 04:75.
- 84 Quoted in Sievers 2002, 92.
- 85 See Black 2011, 172–174. See also Ibn Khaldun 2005.
- 86 Qur'an, 9:71.
- 87 See Sayyid Jamal al-Din al-Afghani, "Islamic Solidarity," in J.J. Donohue and J.L. Esposito (eds.) (2007), *Islam in Transition: Muslim Perspectives*, 2nd edn. Oxford: Oxford University Press, 16–9; and Nikki R. Keddie, "Sayyid Jamal al-Din 'al-Afghani" and Ivonne Haddad, "Muhammad Abduh: Pioneer of Islamic Reform," in Ali Rahnama (ed.) (1994), 11–29, 40–55, respectively.
- 88 Qur'an, 3:159.
- 89 Qur'an, 42:38.
- 90 Qur'an, 65:06.
- 91 See Rahman 2010.

- 92 Ansari 1990, 3.
- 93 Muhammad Khalid Masud, "Chapter 2: The Obligation to Migrate: The Doctrine of Hijra in Islamic Law," in F. Eickelman and J.P. Piscatori (eds.) (1990), 29–49.
- 94 The first stem of the verb, *badjara*, means "to cut someone off from friendly association" (Qur'an IV, 34/38) or "to avoid association with." The third stem, *hādjara*, refers to a mutual ending of friendly relationships. Thus, *hidjra* properly does not mean "flight" as it has been traditionally translated but connotes primarily the breaking of the ties of kinship or association. See W.M. Watt, "Hidjra" in P. Bearman, T. Bianquis, C.E. Bosworth, E. van Donzel, and W.P. Heinrichs (eds.) (2014), *Encyclopaedia of Islam*, 2nd edn. Brill Online. School of Oriental and African Studies (SOAS). June 18, 2014. Available online at http://reference.works.brillonline.com/entries/encyclopaedia-of-islam-2/hidjra-SIM_286.
- 95 Masud, "The Obligation to Migrate," 31.
- 96 Ansari 1990, 4.
- 97 Masud, "The Obligation to Migrate," 30.
- 98 *ibid.*, 31.
- 99 *ibid.*, 32.
- 100 Voll 1987, 37.
- 101 *ibid.*, 37–38.
- 102 *ibid.*
- 103 Ansari 1990, 11.
- 104 *ibid.*, 10.
- 105 *ibid.*, 11.
- 106 *ibid.*, 3.
- 107 *ibid.* Ansari further argues that "these movements were, however, a mixed blessing: they served, at once, as instruments of much good as well as of considerable harm, for they transmitted not only what was healthy and beneficial, but also what was morbid and corrupt. They not only promoted understanding and friendship among men but also generated violent conflicts and clashes. They not only enabled some people to escape subjection to wrong and oppression but also enabled others to perpetrate them." This is important for the analysis of the socioeconomic implications of *hidjra* and the later understanding of this religious practice as a catalyst for economic activity. Ansari 1990, 3.
- 108 Masud, "The Obligation to Migrate," 42.
- 109 *ibid.* See also Ibn Arabi 1972.
- 110 Surat an-nisa', 4:100.
- 111 Voll 1987, 32.
- 112 Voll 1987, 32.
- 113 Voll 1987, 31–32.

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The test of Islamic sensibility with poverty

The state and women workers in the last period of the Ottoman Empire

Kadir Yildirim

Introduction

The nineteenth century, which is considered the most eventful century of the Ottoman Empire, was a period when the conditions of the state and society changed and became harder. With wars lost, the financial structure collapsed, and the control of the state over society weakened, economic backwardness compared to Europe began to be felt completely. The Ottoman government, which was trying to find a solution to economic backwardness, started a period of reform that imitated the European countries that had experienced industrial revolution. With this reform period, classical Ottoman economic principles were also left behind. The state, considering industrialization to be one of its main targets, began to open factories in markets such as textiles, silk, tobacco, and food. Private entrepreneurs also started to open factories once international commercial and financial relations had strengthened. The emergence of factory-type production, rather than guilds, which were based on small producers, led to an increase in waged labor.

In this new period, when the roles of employee and employer became clear and their benefits changed, a novelty seen in industrial life was the rise of women workers. In parallel with the breakdown of the economic structure, negotiations such as inflation gained strength and they reduced people's purchasing power, which meant that, for Muslim women, as for other sectors of society, working became an obligation rather than a choice. However, this choice encountered some obstacles because of the patriarchal-conservative structure and Islamic sensibilities of the society and state administrators. The Ottoman state tried to prevent women from working with male workers in industrial life and, where it could not do this, it tried at least to enforce physical control in production centers in line with religious criteria. Nevertheless, as it is possible to see in state records of the last periods, these state policies remained weak due to poverty and difficulties in economic conditions.

This study, which discusses the rise of Muslim women conducting waged labor in Ottoman working life together with the approach of the state to this situation, analyzes the efficiency of state administrators in finding – or not finding – a response to their religious sensibility in economic life. In this study, the changes in Ottoman economic and working life in the nineteenth century are dealt with. Following this, the reaction of the state to the spread of labor among Muslim women and the efficiency of policies introduced as a consequence of this reaction will be mentioned. The fact that, for religious reasons, the state tried to prevent women from working, especially in businesses owned by non-Muslim people, and how successful this strategy was is evaluated. Finally, the war period after the 1910s, when the state showed

a partial flexibility in these reactions, will be dealt with and the dynamics causing change in the mentality of state administrators toward Muslim women's work and their permanence will be questioned.

I. The age of industrialization and the break from tradition: the nineteenth-century Ottoman economy

Ottoman society and its economy experienced a period of inertia in the seventeenth and eighteenth centuries without any significant changes in traditional structures. But, in response to wars, which markedly increased in number after the 1760s, a reform period was initiated in military, political, financial, and economical fields. The nineteenth century, marked by those reforms, became not only a century in which the classical structure of the empire broke down, but also a new period when the results of the industrial revolution were being clearly seen in Europe and affecting the entire world. In this new period, the Ottoman Empire tried to find a solution to its backwardness in comparison to Europe and experienced the pain of transformation while at the same time entering a time when domestic and foreign markets gradually coalesced economically.

With this period of transformation, the main principles of classical Ottoman financial viewpoint weakened and lost significance. First, at the beginning of the reform age, the *traditionalism* principle, which means a revival of the past, was abandoned; in the 1860s the *provisionalism* principle, which focused on banning exports and promoting imports with the aim of providing abundance in domestic markets, lost popularity as well. *Fiscalism*, which involves enhancing revenues to the treasury as much as possible, lost its classical strictness in the same years and began to soften and be more flexible (Genç 2000, 92–94). The meaning of all of these changes was that a new period started in which the priorities of the Ottoman economy and financial policies differed.

When we observe the economic condition of Ottoman citizens against other world countries, particularly Europe, it is seen that the divergence from industrialized societies grew gradually. In a comparison based on the 1990 dollar value, income per capita in the Ottoman Empire, consisting of the regions of modern Turkey, was 54.6 percent of the average of the US and western Europe in 1820; this division grew gradually and became 40.8 percent in 1870 and 28.8 percent in 1913 (Pamuk 2006, 815–816).

Together with the relative poverty compared to developed countries, another factor making quality of life worse in Ottoman society was inflation. As can be seen in Table 6.1, until the 1830s inflation was not an important problem for the Ottoman economy. Prices, which had risen by a factor of 10.1 by 1750 compared to 1469, had increased by a factor of 285.7 by 1860 and then, after a decrease, the price index was 238.1. Along with wars and financial crisis in the nineteenth century, prices went into a process of increase and people's purchasing power decreased considerably. Since production fell and imports stopped in wartime, it became hard for people even to meet their basic needs. Using an index point of 100 for Istanbul in July 1914, retail prices went up to 153 in 1915, 320 in 1916, 839 in 1917, and 1789 in 1918. In Aegean and Central Anatolian prices, compared to before the war, prices went up 40 percent by 1915, 90 percent by 1916, 200–250 percent by 1917, and 400–500 percent by 1918. In Syria, Palestine, and Jabal-i Lebanon, because of the severity of the famine, prices became uncontrollable (Eldem 1994, 47–50).

Table 6.1 Summary of consumer price indices (1469 = 1.0)

Year(s)	CPI	Year(s)	CPI
1469	1	1830–1839	130.1
1750–1759	10.1	1840–1849	181
1760–1769	11.1	1850–1859	240.5
1770–1779	17.8	1860–1869	285.7
1780–1789	17.2	1870–1879	265.6
1790–1799	24.5	1880–1889	238.1
1800–1809	34.7	1890–1899	235.6
1810–1819	49.5	1900–1909	220.9
1820–1829	62.8	1910–1914	294.2

Source: Şevket Pamuk (2004). "Prices in the Ottoman Empire, 1469–1914," *International Journal of Middle East Studies*, 36, p.455.

Along with these macro-dimension negations experienced in the Ottoman economy, problems were also growing at the micro scale. The main cause of these problems was the hard conditions into which the Ottoman Empire fell as a result of not achieving its industrialization target against Europe. The Industrial Revolution also affected the Ottoman markets in the nineteenth century. In the period following the defeat of Napoleon in 1815, the flow of European goods toward the east increased and soon Ottoman territories became a target for European industrialists. Industrial goods from Europe started to rival traditional Ottoman products and this situation triggered the unemployment of Ottoman craftsmen and artisans (Clark 1974, 65).

There are many examples about the hard situation that the Ottoman manufacturing sector fell into when it encountered cheap mass-produced products from Europe. Towels imported from England after the 1840s, which had a quality as high as those produced in Bursa and which were also cheap, meant that hand looms dealing in silk and cotton production in the city diminished. While there had been 200 looms for towel and bathrobe production, this number went down to 100 in 1860 and to 86 in 1861. The situation was similar in Trabzon, Maraş, and Adana; in other parts of the country, people preferred European goods and this caused the number of hand looms to gradually decrease and, together with the narrowing of the domestic markets, unemployment increased. As early as 1842, reflections of this negative period for local producers included the link between regression in the trade of domestic goods in Kayseri, a hinterland far from ports, and advances in transport after the advent of steam shipping, and the complaints in Erzurum about European goods that were taking the place of domestic goods coming from Damascus, Aleppo, Diyarbakir, and Mosul in the same period (Baskici 2005, 166–170). The competition with Europe caused some production areas and guilds, which had hundreds of years of history, to end. The closing of angora wool looms, which had numbered between 1,000 and 2,000 in Ankara, was only one example of the guilds' decline.¹¹⁴ Though local industry did not decline completely, a negative period was being experienced when sources of income for many professions decreased.

This process not only caused economic losses but also had social effects and confronted the youth, considered the human capital of the country, with poverty and deprivation. It is set

out in state records that in 1885 thousands of poor young people wandered unemployed on the streets of Istanbul; it is not known where they gained their income and the long period of unemployment broke their hope and power to work (BOA 2 Receb 1302/April 17, 1885).¹¹⁵ The rebellion in Dersim, raids and robberies against hajjis on the way to Mecca, increasing brigandage and gangs, and the plundering of military stores were also considered among the consequences of unemployment (“Çare-i Halas” 1910, 3).

Together with those financial difficulties, as we have stated before, the nineteenth century was also an age of reform for the Ottoman Empire. The Ottoman government often tried to take measures against unfavorable economic conditions and backwardness. One of these measures was to change the organization of production in a way that followed Europe and to establish factories led by the state. This new policy on the organization of production shows that a factory-based system was preferred to the centuries-old traditional artisan system of production for meeting the government’s economic growth target. While big investment in this period began with state leadership in factories in the industrial sector, it was also made in in areas such as public works, railways, and harbors.

State factories, which were in the very first period established to fulfill military requirements, became varied with the establishment of the Beykoz Paper house (in 1804), the Beykoz Leather and Shoe Factory (1810), the Thread Factory (1827), the Fez Factory (1833), the Islimiye Broadcloth Factory and the Printed Cloth Factory in the 1930s, the Izmir Paper Factory (1843), and the Bakirköy and Zeytinburnu Industry Complexes (1840). So, throughout the empire, factory-type production began to strengthen (Önsoy 1988, 47–52; Güran 1992, 236–238). Private factories then joined those established under the guidance of the state, and production units employing a large number of workers increased (Kala 1993, 107). In the mid- and late nineteenth century, waged labor increased, with people working in state-owned or private-sector factories, in mines, in the service or building sectors, in house construction with the putting-out system, and, though of limited number, in the agricultural sector for wages (Makal 1997, 132). The shifting of the production system in the Ottoman economy from traditional patterns to the factory-based system caused a change in the characteristics of the relationship between employee–employer relations and working.

These measures, taken by the state in the nineteenth century, and the increase in commerce by integrating with the world economy affected the Ottoman economy in a positive way. With lands lost through war and regions declaring their independence, during the nineteenth and early twentieth centuries the Ottoman population fell from 26 million to 22 million, while GDP, which was 130 million Ottoman liras at the beginning of 1840s, went up to 160 million in 1880 and to 260 million liras in 1913. Income per capita increased from five liras in 1840 to eight liras in 1880 and to 12 liras in 1912. These numbers demonstrate that in the nineteenth century, when Ottoman finance experienced a difficult period and the empire’s expenses rose more than its income, the Ottoman economy grew (Pamuk 2006, 819). This breakdown in the financial structure meant that the state’s financial control of society weakened as well. The consequences of this weakening will be seen in the fact that, despite the state’s desire to prevent Muslim women from working in various environments, this target remained unmet.

We can see from the wages of Ottoman workers how this rapid increase in prices affected purchasing power. For those working in the textile sector, in the nineteenth century real wages dropped up to the 1860s but increased after the 1860s. According to this, when we take the value of the index year 1860 as 100, real wages for Ottomans were 108 in 1800.

The same value went up to 120 in 1880 and 147 in 1913 (Pamuk and Williamson 2009, 38). Unfortunately, we cannot assess exactly how these developments in GDP, income per capita, and purchase power in the nineteenth century affected the general public. If the outputs of economic growth are not shared equally by society, the rate of poverty might not decrease but could instead increase. This is among the most common results of economic history literature. There are examples showing that people in Anatolia encountered significant problems in the nineteenth century. Some periods were very hard for people with low incomes. For example, after a bad harvest in 1852 villagers in Bursa had to remove tree bark and mix it with flour to make bread. Further examples include records of deaths from hunger during the 1874 famine and the fact that, despite all attempts of local authorities, people were not prevented from eating the meat of dead animals in Kayseri. All these and similar cases demonstrate the general economic course did not reflect on every region throughout the period. It could be seen in Western Anatolia in these periods that the economic problems of people with low incomes were at the highest level (Kasaba 1993, 58–59). Likewise, there was a limit to this economic growth and Ottoman society, in the postwar period after the 1910s, would see the effects of approaching this limit greatly in economic terms. We have mentioned this with the data above, which show the increase in the general level of prices and the decrease of purchasing power.

Along with wars after the acceleration in the nineteenth century, in the six-year period between 1914 and 1920 real wages fell at the rate of 33 percent (Boratav 2006, 35). While there was a drop of 30 percent or more in the war periods, the distribution of income across the country became more unequal. Who faced more loss, hunger, and death in these times were the poor in cities and those with low incomes, who had difficulty obtaining food (Pamuk 2014, 218). The degree of the food problem and the famine in 1915 in Istanbul is clearly seen in the report which Bulgarian diplomats sent to their country: “I know lots of families try to deceive their children crying from hunger with peanuts and peas consecutively two-three days. Incidents about women lynching police officers in front of bakeshops are heard.” In this way, the seriousness of the famine in Istanbul is stated. Similar problems are included in reports about Izmir as well (Velikov 1969, 30–36).

This long-term change, which was experienced countrywide and in various subregions in macro and micro terms in Ottoman economy, also had effects in working life. The more family-like relationship between employer and employee, which was based on solidarity in the guild system, gave way to a new period in which the each side’s interests clashed and differed. In this period, when some professions disappeared, waged labor and the number of female workers were increasing. For women, there were fewer obstacles to working in factories compared with under the guild system. Also, for the owners of factories manufacturing silk, tobacco, and textiles, women laborers were better choices as a cheaper and more subservient source of labor. This situation indicated a period of change in Ottoman working life, in which women workers had a more prominent role. On the other hand, just like all changes in history, this new period would encounter opposition from various centuries-old informal institutions. When considered from the position of women workers, the conservative structure of society and the religious sensibilities of the state administration are seen as prominent elements.

The state had a negative approach to the increase of women working as wage laborers in industries such as textiles, tobacco, and silk. This was especially the case with the increase of Muslim women workers. This apprehension stemmed from Islamic sensibilities against women working with men and manifested in interventions in working life. Attempts at

industrialization and development in commercial-economic life were naturally increasing the number of female workers. At this very stage, we see that the state administration, which supported industrialization and saw it as one of its most significant targets, interfered in working life over the issue of women workers. But, as the breakdown in the administrative and financial structure reduced the efficiency of the state, new economic conditions resulted in the weakness of state interventions. Muslim women's work, which is discussed in this study, is an example to be considered within this sense. As will be seen below, from the very first phases of industrialization targets onward, the state tried to prevent Muslim women from working, especially in the industry sector, and, when it could not do that, it tried to control the process. However, with the loss of power in financial and administrative capacity, poverty among Muslim society brought about the weakening of the state's domain and the attempt to prevent women from working remained frustrated.

2. Muslim women workers in Ottoman working life, and obstacles

In the Ottoman Empire, a patriarchal society, very few records were kept about women for social and economic purposes. Just like all other areas, women were even only included in population censuses relatively late. This case of women, who – not only in the Ottoman Empire but also in European states – got their social and political rights much later than men, certainly created a problem in determining their place in working life (Faroqhi 2000, 12). This problem, encountered in particular in early periods, diminished in the late nineteenth century and more data can be reached about their participation in working life, their problems, and their financial situations.

Although there was an increase in women's participation and visibility in the labor market during the nineteenth century, previous periods also witnessed female workers in many different professions. For instance, in the first half of the nineteenth century, women were seen in a great variety of jobs, including grocer, barber, cook, colorist, locksmith, waterman, candy seller, gardener, boza seller, twister, boot maker, musician, miller, tailor, builder, cheesecloth seller, carpenter, spiker, meat porter, cup maker, velour seller, lumberjack, upholsterer, bird cage maker, goldsmith, fringe maker, boater, greengrocer, milk delivery, sherbet seller, brick maker, and tobacco seller. This is an indication that women did not stay away from working life completely (Altuntaş 2004, 39).

Despite all these, because of the agriculture-based Ottoman economy, a relatively low rate of waged labor, and social, religious, and ethnic causes led to a low rate of labor market participation among women. The increase in factory-type production with attempts at industrialization, together with this spread of commercial production and the integration of international markets, led to the number of female workers in industry life increasing in the nineteenth century. Nevertheless, this increase did not function in a natural and smooth way; various reactions came from both society and the state against the existence of women workers, and particularly of Muslim women workers, in working life.

One of the main obstacles for women to attend working life as waged laborers was that Ottoman society had a structure based on village and agriculture and that the industry sector and industrial life in cities were not developed. Thus, *Büyük Duygu* magazine even stated in 1913 that “in the country the underdeveloped structure of industrial and economic life causes even men not to exist in this field; so it must be taken naturally that women cannot get a foothold in industry” (Haydar, June 18, 1913, 118).

The negative view of women's working was not only because the industry was not widespread. Religious sensibility and cultural reasons were more significant than this. In fact, developments in Kastamonu in 1909 are a good example for this situation. After the number of women working on weaving looms in the region increased, some men reacted and a dangerous event took place: armed groups tried to prevent women from working. Those people established an armed community (BOA April 1, 1909). In the report from Kastamonu Prosecution Office, local state administration was stated to support these groups. The oppression of local state institutions and this community, said to be founded with the aim of preventing women in Muslim society from working for religious reasons, went so far as imposing a ban on women going outside (BOA February 7, 1909).

The government considered women working in the same environments as men to be an unfavorable situation under religious rules. In this way, the Ministry of Internal Affairs requested an investigation from local administration about the disobedience of Islamic rules among Muslim women and girls working in tobacco shops in Aydin Province, Ödemiş district in 1912. The governorship tried to ease the reaction of Istanbul by stating that Muslim women were working in environments completely separate from male workers and that the police were even taking women's salaries away and enforcing Islamic rules. The governorship also stated that women in the region were working in tobacco shops because they needed income; it was hard to prevent this but the governorship was trying to take physical control (BOA July 10, 1911).

Discussions about women working together with men were also a hot topic in the early period of reform. In that context, factories behaving in a reverse manner had warned about the subject and production units functioning in a contrary way were warned. According to the *Şark* newspaper, dated May 14, 1874, men and women in silk factories in Jabal-i Lebanon were working together and it was obscene. Some physical arrangements took place in some factories, aiming to construct a workplace in which women and men worked separately without seeing each other, following a warning from regional administrator Rüstem Pasha to factory owners. By this arrangement, male workers could not enter the women workers' departments and vice versa (*Şark*, May 14, 1874, 2).

To see how women's work was viewed negatively due to religious sensibilities, especially in industrial life, we can read from the views of Islamist thinkers after the Constitutional Period (1908). Musa Kazim, one of these thinkers stated his negative thoughts, saying: "the duty of the women is inside the house, but the man's is outside; changing this is like changing the nature, like trying to change men into women and women into men." Additionally, Galip Bahtiyar reacts to those who assert that women in Ottoman society live under captivity: "which of these two lives is captivity? Being the worker of capitalists, or being the owner of her house?" (Kurnaz 1996, 65–69).

Another reaction of the state to female waged labor was against women working in non-Muslims' businesses. The state tried to prevent Muslim women from working in houses or small workshop units belonging to non-Muslims. How successful the state was in this policy is a controversial issue. However, this is a very clear example of a clash between economic needs and religious requirements. In a command sent from Istanbul in 1898, it was put forward that Muslim women worked as maids or carper weavers in the shops and houses of Christians in Isparta, but that this was not suitable in Islam; Konya governorship was asked to prevent this situation (BOA September 19, 1898).



Figure 6.1 Physical arrangements in Istanbul's Cibali Régie factory for men and women to work separately
 Source: Gülhan Balsoy (2009). "Gendering Ottoman Labor History: The Cibali Régie Factory in the Early Twentieth Century," *International Review of Social History*, 54, p. 63.

The state did not approach this incident in a prohibitive and intervening way; it also tried to find a solution for people's poverty. On the one hand, it thought that women's work must be prevented as it did not properly comply with Islam; on the other hand, the state administration was aware of the interventions and reactions that would not result if the poverty problem could not be solved. In fact, the question was asked why Muslim women's work in the houses or looms of Christians increased over these years compared to previous periods and, as an answer, poverty was emphasized. To decrease poverty, policy aimed to provide Muslim women with looms, as a result of which, it was thought, women would not work in other people's businesses with men, but in their own house. This decision of Isparta administration to increase the number of Muslims' weaving looms and educating women to make their own products was also supported by the central administration, which asked for it to be put into practice (BOA March 18, 1899).

To what extent this decision was effective would be understood from a state report of 10 years later. In an inspection made in Isparta in 1908, it was reported that, exactly like in 1898, Muslim women worked in houses and on weaving looms owned by Christian people. This did not comply with Islam. It was stated that the decision made 10 years previously to increase the number of Muslims' looms was not practiced for reasons including financial

burden, and it was not beneficial. The financial crisis that central and local state institutions experienced frustrated the state sensibility related to women's working environments. The same inconvenience and the need to prevent them for religious reasons were repeated and this time measures such as the encouragement of Muslim society to open production units and making it easy for them to use credit facilities from Ziraat Bank were turned toward (BOA March 7, 1908). But the 10-year period, economic requirements, and the need to work as waged labor got ahead of state intervention and between the years 1898 and 1908 the state did not get the change that it desired with regards to the working practices of Muslim women.

At this time, as a result of poverty, the need for income became more prominent as a factor compelling women to join working life. As we have mentioned in the first part of the study, economic problems heightened widely in the war periods and put people into greater trouble. We can see an example of this case on women workers in Uşak and Gödes from an article in *Tanin* newspaper dated 1913. The salaries of young girls working in carpet factories in Uşak and Gödes were very low. Because of the lowness of their salaries, it was claimed that these workers were showing disorderly behavior and so sexual illnesses were increasing in the region. Though the Ministries of Trade and Agriculture were asked to increase the wages, the heavier conditions of the First World War, which would begin the following year, would make it more difficult to take measures against this situation. No matter how much the state opposed it, owing to poverty, working became an obligation among young girls and women in the region, which showed itself not only economically but also in some social and moral negativities ("Yevmiye İçin," July 20, 1913, 3). As you will see below, the conditions that wars brought would lead women to work more, and they would also cause flexibility in state policies toward women workers.

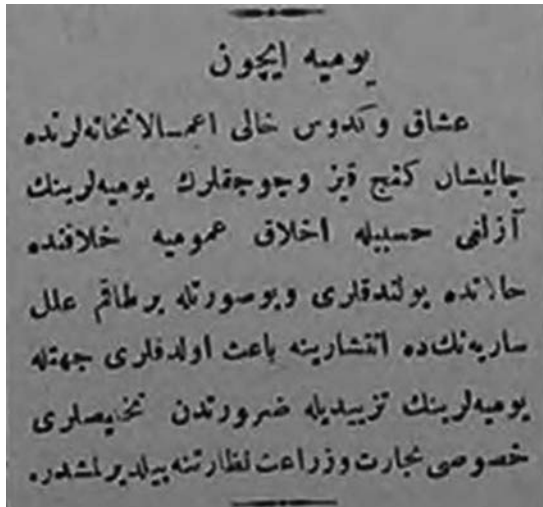


Figure 6.2 Problems caused by low wages of women in Uşak and Gödes regions

Source: "Yevmiye İçin," *Tanin*, No: 1667, July 7, 1329, July 20, 1913, 3

3. War, state, and Muslim women workers: a change of mentality or a temporary obligation?

One of the most significant, and unexpected, breaks experienced in the late Ottoman economic, social, and political world took place with the Second Constitutional Period, declared in 1908. The feeling of freedom that arose with constitutionalism also affected Ottoman women; people began to speak up about women becoming included in both social and economic life. Wars that later began in the Balkans and penetrated into the entire country with the First World War differentiated priorities for the state and society, and also caused Muslim women to participate in the labor market as waged labor.

In this period, the women's movement was led by media organs for women and communities founded for women. In magazines and newspapers for women, many publications supported women joining working life and promoted vocational trainings. These articles were critical that women fell behind men in economic life and they endeavored to create public opinion and to give self-confidence to women about working. In this direction, an article by Ulviye Mevlan published in the magazine *Kadınlar Dünyası* in January 1915 against the dominant idea criticizing women's joining working life is remarkable:

Another excuse of those who prevent women from earning their living is the illiteracy and clumsiness of women. For God sake! I wonder if men dealing with trade are graduates of a commercial school or had higher education? It's clear that 80 percent of them are illiterate. It has been understood well with some experiences that the potential of women in commerce is not lower than men. In fact, the truth is that the women who are deemed worthy of sitting on the ground and selling handkerchiefs or begging with their children were not considered worthy of dealing with trade in a clear shop.

(Oktar 1998, 55).

Another matter, separate from the arguments in the press, is women's associations, whose numbers increased in the wars with the increase in widows and orphan women and girls. These communities, also supported by the state, were first founded as charities and came to prominence binding up the wounds of the war, providing food and clothing allowances. Some of these associations aimed at giving vocational training to women and increasing their employment by opening tailoring schools and houses (Çakır 2009, 49–50).

Mamulat-i Dahiliye İstihlak-i Milli Kadınlar Cemiyet-i Hayriyesi (A Philanthropic Association of Women for Domestic Goods and National Production), which was founded in 1912 under the presidency of Melek Hanim, incorporated only Muslim women. Its main goal was to promote the use of domestic goods, to stop cash outflow to foreign countries and, in that way, to help the development of Turkish industry. This association was also supported by the state because it promoted national economic policies and made activities for Muslim society and women. The association was planning to train poor girls in the country as tailors, so as to help them into jobs (İkdam, April 12, 1914, 1). Türk Kadınları Biçki Yurdu Derneği (Turkish Women Tailoring School Association), founded in 1913, aimed at teaching this craft to Muslim-Turk women in order to avoid the money paid for stitching from foreigners and non-Muslims. In this direction, by 1923 the association had enabled 1,380 women to be trained as tailors (Kurnaz 1996, 214–218). Again, Osmanlı ve Türk Hanımları Esirgeme Derneği (The Association of Protection of Ottoman and Turkish Women), established in 1913, stated its aims as

including “to gather all the strength of all Muslim and Turkish women in a center for finding remedies for the real needs of the country and to enlighten and awaken Turkish Ottoman Women for occupation and commerce” (Osmanlı ve Türk Hanımları Esirgeme Derneğinin Nizamnamesi, n.d., 2–3).

All of these targets were suitable for the policies of the governing İttihat Terakki (Committee of Union and Progress) related to Turkification and national economic policies. This was showing that the state wanted to benefit from women as a source of labor at a time when men’s labor decreased as they were called to arms in the war. In time, these kinds of activities expanded out of Istanbul and spread in the countryside. An example of this situation is seen in Çankiri in 1915. For the widow women and orphan children to be protected and have an income, a *darussinai* (industrial house) was opened for charity by the notables of the region. Since the first products of the women and children employed were 60,000 pairs of socks for the need of the army, the activity was met with thanks (BOA April 8, 1915).

The most effective and strongest associations targeting the employment and economic development of Muslim-Turk women in the Ottoman period was Kadınları Çalıştırma Cemiyet-i İslamiyesi (Islamic Society for the Employment of Ottoman Women), established in 1916.¹¹⁶ The association was founded in the hard conditions created by the First World War and, as the largest part of the male population was on the front line, the association aimed to close the manpower deficit and to meet families’ needs for income. As 14,000 women applied for jobs in the four months after it was established, it is seen that the association functioned to meet a significant need (BOA January 1923; Ahmed Emin, February 9, 1918, 1).

The association, which began to function in 1916 under the patronage of Naciye Sultan and under the guidance of a group of state government officials, consisting of Minister of War Enver Pasha (*İkdam*, August 9, 1916, 4), Ministry of War General Needs Chief İsmail Hakkı Pasha, Ministry of Defence Mektupçusu (the man responsible for letters) Ali Rıza, Istanbul Deputy Salah Cimcoz, Attorney Mehmet Arif, and Attorney Mehmed Selahaddin Bey (*İkdam*, August 9, 1916, 2), aimed to enable Turkish and Muslim women to be employed. In its regulations, it stated its target as helping women to find jobs and gain income in a moral way, and in order to do this it planned to open *darüssinai*s (BOA November 13, 1916). One year after it was finished, the association helped 24,254 women to find jobs and it played a great role in including women in working life (Sümer 1968, 59–61). After all of these productions and activities, the association had a fund of 50,505 liras only one year after it began with a 2,791 liras fund (Ahmed Emin, February 9, 1918, 1).

This association, whose activities were supported completely by the state, mediated the employment of women in public institutions and also played an active role in establishing troops of women. Under the command of Minister of War, Enver Bey, in and around Istanbul the “First Women Labour Battalion” was founded in 1917. The duty of assigning these women who would give service behind the front was given to the Islamic Society for the Employment of Ottoman Women in Istanbul. Women soldiers, who were supposed to work for eight hours a day, were employed in two separate ways: as salaried officers and wage or casual workers. Together with 125 women coming from the Society for the Employment of Ottoman Muslim Women, applications to the battalion reached 150 in 1918, but the number of women working there was around 100 (Oktar 1998, 98–99).

The association was also seen to function effectively in the state’s policies to increase the Muslim-Turk population. Under these policies, with the aim of making marriages among members and in that way establishing new families with Muslim-Turk roots, notices were given to related newspapers about male and female workers who wanted to marry and suitable

partner candidates were sought. This activity, intended to increase the Muslim-Turk population in both the quantitative and qualitative senses, got stronger by encouraging families to have babies, giving various material prizes and promoting having children as a significant activity of social responsibility, saving family life from war damage. Again in this activity, the association is seen to have support from the state. Investigations were made by city police about people who wanted to marry and, for the marriages to go on without problems, information was taken from the embassy of Vienna about similar institutions and activities in Germany and the Austro-Hungarian Empire, where the institution of marriage was quite developed (Vakit, February 17, 1918, 1). These kinds of activities supported and encouraged state policies intended for Muslim-Turk society and ensured that the association was included in institutions possessing public interest, was exempted from tax, and received some financial support (BOA July 28, 1918).

These associations, in which state administrators took part in person as founders and which received the state's support suggest that there was a change in mentality about women working in state administration. As a matter of fact, it is understood that state administration, which before 1908 had been cool toward women's – and especially Muslim women's – participation in working life for religious and cultural reasons, had the opposite attitude in the war period and encouraged women's work through various associations. With the wounds of war and poverty, it is seen that the interventions of the state against the existence of women in working life had a quality that was more encouraging than prohibiting. However, the policies carried out after the war show that this thought is not correct at all; we see many examples of women, whose employment was encouraged during the war, being fired when men returned from the front.

Records of the time show that the increase in women's employment during this period was interpreted as a need for obligatory conditions rather than a change of mentality. For instance, in the state record of the discharge of women working in the Censorship Committee after the war finished, women were mentioned as “female civil servants who were formerly accepted to service and then whose duties finished,” and the connection between war and women's employment in the state was put forward (BOA September 29, 1919). In an article in *İnci* Magazine dated March 1, 1919, it was recorded that after the war female employees were being removed from their work as civil servants with some reasons, noting that

when the disbanding began, many female servants who did not show any laziness in their work and who would provide the food of family with her salary were fired. First, Kadiköy Sultanisi [Kadiköy High School] discharged women in school stating men and women could not work in the same place. After a while the Ministry of Postal imitated it. We also learn in the last periods female servants in Ziraat Bank were discharged. Above all, the reason for the removal of these women from the bank is rather strange. . . . But we cannot see it true that the rights of our women are being extorted with meaningless reasons
(Oktar 1998, 66)

Just like in Kadiköy Sultanisi, in other public institutions there had been no problem with women working with men in the war period, but they had afterwards been discharged on the grounds that it was not suitable for them to work together with men. Sometimes savings measures were put forward as the reason for discharging women. Nevertheless, as in the case with Şehremaneti, some female servants were dismissed and then male civil servants received raises. This rightly caused reactions and complaints from female workers (BOA April 6, 1920).

The fact that women were discharged in this way after the war shows that the old sensibilities of the state related to women's employment continued.¹¹⁷ With the increase in the demand for labor in the Ottoman Empire, women's employment increased, as well. This is very similar to other countries. Hence, rather than seeing the wartime Ottoman Empire as a process of change in the mentality of the state about female Muslim workers, it would be better so see it as an exceptional policy from an extraordinary period. Indeed, after the war finished, former policies toward Muslim female workers came into effect and the prohibiting identity of the state came to the fore again. However, attempts at industrialization and the change in the Ottoman social and economic life began to change Muslim women's priorities and, because of economic necessities, working became for them an obligation rather than a choice. That was hindered with state intervention in working life, which enlarged the reaction of the women's movement, which grew stronger after 1908 and became the basis of the attempt of the women's movement to join economic life in the Republican period.

Conclusion

As one of the greatest changing points in the history of human beings, the Industrial Revolution not only created radical changes in countries that achieved this revolution but also affected others which could not do so. The period between European countries achieving industrialization and the rest of the world doing so was called a great divergence and for the Ottoman Empire and similar non-industrial countries started a new era of underdevelopment and measures of solving that situation. Reforms trying to accomplish these solutions marked the nineteenth century in the Ottoman Empire. The provision of these reforms in financial life was, just like in Europe, to reconstitute the organization of production in a way that put factory-type production at the center. In this direction, many factories, first led by the state and then by the private sector, began the spread of production and waged labor in working life. Yet, despite all of these measures, the breakdown in the financial structure could not be hindered; moreover, inflation and the fall of purchasing power were among the developments affecting Ottoman society negatively. The decrease in sources of income and the increase of poverty turned working as waged laborers for different groups of people into an obligation. One of these groups, as mentioned, was Muslim women.

Toward the end of the nineteenth century, the appearance of Muslim women workers in Ottoman industrial life was interpreted, among society and state administrators, as a case against religious sensibilities and they tried to hinder it. As we have seen in the study, with various examples, men who did not find it appropriate for Muslim women to work alongside men in industrial life even established armed organizations, while the state sent commands to local administrations to prevent women from working in that way. But poverty, caused by the economic conditions of the new age and the economic difficulties that people were facing, made it impossible for the state to stand in front of this change, and women made their decisions in light of economic conditions rather than the religious sensibilities of the state. With decisions it made in different periods, the state could not achieve its aim of preventing women from working alongside men; it at least tried to enforce adherence to Islamic criteria with physical arrangements. News about the increase in sexually transmitted diseases among workers in some regions because of low salaries show that all this sensibility of the state remained inconclusive against poverty.

The fact that the male workforce was called to arms in the war periods after the 1910s caused a change in the state's viewpoint toward Muslim women's working. The state, which

tried to prevent this in previous years, encouraged Muslim women to work by promoting the opposite policy in order to meet the deficit in labor supply in the war periods, and it also provided significant incentives to associations founded with this target. However, after the wars ended and the male workforce returned from the front, the state abandoned this policy and put its old sensibilities and priorities into practice again. Thus, it continued to be one of the most significant obstacles for female laborers in existing working life. Accordingly, if we accept the extraordinary case of war as an exception, Muslim women's working continued to be a fact not accepted by the state during the last periods of the empire. Nonetheless, as seen in the study, the poverty experienced in parallel with the breakdown in economic life became a more dominant factor for Muslim women than the state's insistence on religious rules about labor force participation.

Notes

- 114 These kinds of examples should not be construed as suggesting that all local industry in the empire declined and small production ended. Ankara weaving and the guild in Ankara were wiped away, but in return silk fabric spread in other parts of the country and new job opportunities arose. Similarly, the guild for sellers of pipe bowls was exposed to a similar course in the nineteenth century and lost power, but in regions where tobacco production was wide a different working area appeared and spread. (Quataert 2004, 1003–1004, 1007).
- 115 Prime Ministry Ottoman Archives, hereafter BOA.
- 116 For the foundation, activities, regression in time, and other aspects of Islamic Society for the Employment of Ottoman Women, see Yavuz Selim Karakişla (2005), *Women, War and Work in the Ottoman Empire: Society for the Employment of Ottoman Muslim Women (1916–1923)*, Istanbul, Ottoman Bank Archive and Research Centre.
- 117 It must be stated that the increase of female employment did not pertain solely to the Ottoman Empire, but it is a phenomenon also seen in other countries in the war period. For example, between 1914 and 1918, the number of women employed in England increased from 2.2 million to 4.9 million, which means it went up almost 50 percent. (Bureau of Employment Security, July 1942, 4). During the Second World War the proportion of women workers in all was 24.3 percent in 1940 and this increased to 32.9 percent in 1944. This meant that 6.6 million new women joined work life (Pidgeon 1944, 2–3).

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Islamic ethics and migrant labor in Qatar

Ray Jureidini

I. Introduction

This paper is a lay exploration of how it may be possible to understand the structure and treatment of foreign workers in Qatar (and the GCC generally) in terms of Islamic principles, ethics, and culture. It is surprising that so little attention has been given to Islamic analyses of the ethics of the conditions of migrant workers in the Gulf States, given that labor or work is such a fundamental principle of virtue and value within Islamic religious philosophy and that these countries depend so heavily on foreign labor. Indeed, the imperative of work and support for the family in Islam is a normative pious activity. Studies in industrial sociology and organizational psychology have conducted studies of the Islamic work ethic with surveys to determine levels of commitment to work, job satisfaction, and the like. These studies have largely looked toward Muslim employees and managers in Western countries such as European countries and the USA, finding Muslim work ethics akin to, or higher than, Protestant and Catholic work ethics (Zulfikar 2012; Stam *et al.* 2013; Possumah *et al.* 2013; Khan *et al.* 2013). With the exception of Syed (2010), little has been forthcoming in studies of Islamic ethics and the treatment of migrant workers in Muslim-majority countries (MMCs), and in particular the GCC.

It is one thing to speak about the Islamic work ethic in relation to the commitment to the moral imperative to work, and work well, but what of Islamic morality in relation to contemporary Islamic economies? The notion of the moral economy has been used in many Marxist critiques of capitalism (Thompson 1991; Sen 1999) and in sociological and anthropological analyses that reveal cultural values operating in financial markets exchange (Zelizer 1994; Jureidini 1988). The idea of inequalities or unprincipled or corrupt forms of capitalist activities have also been addressed in moral terms, if only in relation to violations of the laws of business. Despite classical economics' abhorrence of state intervention as a moral arbiter in the capitalist economy, it was Polanyi (1957) who observed ironically that it requires state intervention to facilitate a "free" market (Polanyi 1957). The social democratic ideal of a welfare state with the moral obligation to help those in need is counter to laissez-faire capitalism. Adam Smith's "invisible hand," the idea that individuals who pursue their own interests will inevitably benefit others (as an unintended consequence) has not been seen as particularly credible. In this sense, strict laissez-faire capitalist economics rejects what it sees as emotional, ideological, or religious elements in economics and business as irrational and thus unsuitable for capital accumulation. Nonetheless, Smith cautioned:

[The] disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least to neglect, persons of poor and mean condition, though necessary

both to establish and maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments. (Adam Smith 1790, 52)

Smith argued that the populace's acceptance of the leadership and authority of the powerful led to the state supporting and maintaining the system of inequality and privilege, which he was opposed to. His fear of government was that it supported monopoly practices in the market. "Civil government, so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all" (Smith 1937, Book 5, Chapter 1, Part 2).

More contemporary critiques of all types of economic systems that have been based on violations of human rights and labor rights according to UN conventions are also moral critiques. When applied by UN organizations such as the International Labor Organization (2013), as well as NGOs like Amnesty International (2013) and Human Rights Watch (2012), "naming and shaming" is a moral critique of how citizens and non-citizens in countries around the world are being mistreated according to international principles and international law. Labor, and more recently migrant labor, is given specific attention by the ILO and (internationally) by the International Trade Union Confederation (2014). Indeed, as will be discussed below, Qatar has been specifically targeted by these organizations because of the evidence of labor and human rights violations; and Qatar is currently perceived as being vulnerable to criticism as it is in the international spotlight because of their awarding of the 2022 soccer World Cup.

But criticism based on human rights principles are not always taken seriously in the GCC, despite having signed and ratified many conventions. The idea of exceptionalism, based upon either sharia law or religio-cultural difference (cultural relativism), is evidenced by reservations to some of the conventions ratified or refusals to ratify. For example, in 1947, the government of one GCC country refused to ratify the Universal Declaration of Human Rights because of its objection to Articles 16 (on the freedom of choice of marriage partners) and 18 (on freedom of religion) (see Ignatieff 2001). Although there have not been such reservations to labor conventions, an analysis of reservations to the CEDAW and CRC conventions argued that a number of (but not all) Muslim countries during the 1980s invoked the objections that certain articles of the conventions were either contrary to or inconsistent with sharia law. By the end of the 1990s, with repeals or rewording of a number of reservations, the language used was more in terms of secular reservations such as conventions being incompatible with national domestic laws so as not to direct criticism toward Islam specifically. It has been concluded that the many variations between Arab and Muslim countries' responses made it impossible "to say that Islamic law dictates the stances of Muslim countries on whether or not to commit themselves to abide by human rights conventions or to enter reservations [or] inspired by an Islamic model" (Mayer 1998, 43–44; see also Syed 2010). Mayer's analysis suggests a historical shift in the public sphere from specific references to Islamic sharia to the secular articulation of national laws and rights principles.

At the same time, attempts in the Muslim world to reconcile Islam and the West by emphasizing the commonality of human rights principles in both "traditions" have not been seen as particularly successful (Ignatieff 2001). Texts highlighting that modern human rights instruments are contained within ancient Islamic ethics and jurisprudence have proliferated, including positive analyses of women's rights through re-readings and Islamic textual analyses (see Mernissi 1993; Moussalli 2001). In a highly celebrated work on Islam and the moral

economy, Tripp's (2006) main focus is on Islamic moral responses to capitalism and not how Islamic states have established their own production arrangements using massive numbers of foreign workers. The only reference to migrants is that Pakistani, Bangladeshi, and Indian workers use the *hawala* system for fund transfers, a method that relies upon trust but is not specifically Islamic. Critically, the analysis of both secular and Islamic rights is always fraught with the tension between the principle and the reality – “the discrepancy between the ideal and practice, pillars of faith and the pressure of market competition and government prohibition or sanctioning of workers' rights, including the formation of union, and its application” (Syed 2010, 458).

Of course, people from all religions pray for help, but one moral criticism of the hypocrisy of some Muslim businesspeople laments that they begin a transaction or negotiation saying *Bismillah* (“In the name of God”) and end in *Alhamdulillah* (“All praise and thanks to God”) but in between it is all “Adam Smith” (though, given Smith's moral position as explained above, I would prefer to cite Milton Friedman) (Bazian 2014). This humorous quip is instructive in that it highlights the tension between the belief in, the wish for, and perhaps the habitual reference to divine intervention in a business transaction, yet in practice using secular, rational, profit-maximizing behavior, including *riba* – the antipathy of Islamic economic ethics. For Bazian, it is also a measure of the internalization of Western colonial ideals.

2. *Kafala*

The *kafala* system, which operates in Qatar, requires all foreigners working in the country to be sponsored by a Qatari national (the *kafeel*) in order to obtain a work visa and residency. For foreign companies, the Qatari sponsor must hold a 51 percent stake in the company registered in the state. This arrangement ties the individual or company to an individual citizen who has the power to prevent the foreigner from leaving the country or transferring to another employer.

While the historical origins of the *kafala* system has honorable principles in Islam, it is generally acknowledged that these principles have been corrupted as they have been applied to contemporary economic and labor relations. The historical roots of *kafala* (at least from the nineteenth century) are well summarized by Frantz (2011) as having had a broad set of parameters and applications, from loan guarantees to the guardianship of orphans. *Kafala* meant a responsibility by a *kafeel* to provide food and care for another and to offer the guarantee that a stranger's presence was not a security threat – as a kind of symbiotic, or “co-joining” of one with another (Frantz 2011, 97). Frantz also pointed to the Ottoman principle of a guarantor under 612 of the Al-Majallah, which states:

A guarantee consists of the addition of an obligation to an obligation in respect to a demand for a particular thing. This is to say, it consists of one person joining himself to another person, and binding himself also to meet the obligation which accrues to that other person.

(Al-Majallah Al Ahkam Al Adaliyyah, 2000: Book III)

In some ways, the *kafeel* resembles the “fiduciary” under the (British) law of trust. In the same way, it implies a relationship of the power of one over the other (Dito, 2014). However,

the *kafala* emphasis upon the sponsor or guardian taking responsibility for another person's actions is different. The fiduciary, or trustee, is entrusted to look after the interests of the client or beneficiary, not to answer for or take responsibility for his or her actions or to act as a guarantor in vouching for the other person's bona fides or indeed debts.

It would seem that the provisions of *kafala* were operating in the Gulf States in some loose form from the 1940s. For example, pearl divers were bound by a *kafeel*, who owned the fishing boats. As Longva (1997) noted, in Kuwait, however, there was no legal reference to *kafala* until the Aliens Residence Law in 1975, despite the requirements from the 1950s and 1960s that foreign businesses required a local Kuwaiti partner with 51 percent ownership and that migrants should be "vouched for by a respected citizen of Kuwait" (Longva 1997, 78). More clarity and control was required in the 1980s throughout the Gulf States, with increasing fears of potential political instability that might arise particularly from non-Gulf Arab migrants who were settling with their families and in time might agitate for political influence or franchise (such as Palestinians, Nasserite Egyptians, and Yemenis). This led to substitute migration, replacing many Arabs with Asian migrant workers (see Jureidini 2005), with stricter control and management over foreign labor and where low-income workers were denied having their families accompany them.

The *kafala* system emerged recently as an administrative tool institutionalizing a broader system of patronage and control over labor which had long been in place. It functioned to ensure that no more workers entered than jobs existed, that they were personally tied to a national, and that they stayed only as long as they were employed.

Because most foreign workers lack the right to associate, organize, or vote and are subject to deportation, the system has effectively out-sourced the least wanted, most difficult, dangerous and low-paid work to a vast, politically impotent workforce.

(Frantz 2011, 99)

It also effectively prevents the operation of a local labor market for migrant labor, and virtually guarantees citizens employment in the public sector. Private Qatari sponsors/employers (*kafeel*) control the entry, exit, and employment transfer of all employees. Foreign employees are not free to change employers without their *kafeel's* permission, requiring a Non Objection Certificate (NOC). The number of NOCs provided on an annual basis is not known, but it can be assumed to be relatively small. In this sense, there is no real labor market operating in Qatar and the other states, perhaps with the exception of Bahrain. In 2009, Bahrain abolished the requirement to have the employer's permission to change employers, but in 2011, as a result of internal pressure, regulated that employees must first provide a minimum of one year's service. In Qatar and Saudi Arabia, the sponsor must approve an exit visa to allow foreign employees to leave the country, although there are currently plans to reform this in Qatar (see below). These controlling elements have been seen as violating fundamental rights of freedom of movement (withdrawing one's labor and leaving the country). The ITUC and others have characterized it as a modern form of slavery, particularly in relation to low-skilled and vulnerable workers in the construction and service sectors and domestic workers in households (the latter being excluded from the protections of the labor law). There is nothing particularly Islamic in these regulations, but they do lend themselves to practices of forced labor and serious violations of the universal rights to freedom of movement and association (see Jureidini 2014). As Kamali (2011, 10) suggests,

Although slavery has disappeared, when a government ordains that its people may not leave their country without some special exit visa given as an act of grace, that government is in effect restricting the freedom of an entire people within the boundaries of its territory.

The sharia-based Cairo Declaration of Human Rights in Islam (1990, Article 12) states clearly: “Every man shall have the right, within the framework of the sharia, to free movement and to select his place of residence whether within or outside his country.” The fact that migrant domestic workers are routinely prevented from leaving the household in which they work and construction workers’ lack of choice of accommodation are breaches of this principle.

On the other hand, these measures may have been developed out of a xenophobic fear of those being invited into the country to work. Early Islam taught that it is important to enlist the assistance and services of both believers and non-believers, but only those who are trustworthy, competent, and ethical (see Ramadan 2007, 83). In the modern period, trust is not required as long as there is a legal system that guarantees the rights of both the employer and employee. However, when it states in the Qur’an (28:26) that “Truly the best of people for thee to employ is one who is competent and trustworthy” it is also assuming the principle of appointment by merit and against nepotism and discrimination (Syed 2010, 459).

Not knowing how trustworthy all of the people invited to work in the country were (from technicians, architects, bankers, accountants, and engineers to low-skilled laborers), the *kafala* system of control offered a measure of insurance, particularly where extradition treaties were small and historically ineffective (Jureidini 2014). For example, a survey in 2011 by Deloitte Corporate Finance showed that one in three GCC enterprises experienced at least one fraudulent incident annually. Fourteen percent of these were valued at over \$1 million and 7 percent over \$10 million (*Emirates* 24/7 2011). Thus, it is unclear whether the *kafala* arrangements are incidental to, the cause of, or a protection from fraud.

In a more recent essay, Dito (2014) argues that the *kafala* system, where responsibility and authority are delegated to private citizens, is not just a system of administration but serves to cement the relationship between the state and its citizens. He argues that it is an effective means for the (rentier) state’s lack of capacity to deal with a huge foreign presence and thus both the state and citizens control the right of entry to the country. It is also a means for government wealth distribution among citizens in both public and private industry sectors, minimizing the competition between elite families and the maintenance of sociopolitical power structures, to the exclusion of foreigners. Indeed, one requirement in Qatar is that, when an employee completes a contract and returns home, he or she cannot return to work for another employer within two years (although this may be reduced to six months in line with other GCC countries such as Saudi Arabia). As with domestic workers, these provisions seem to be measures to prevent the divulging of information from one household or enterprise to another.

3. Unions and collective bargaining

As Azid (2005) explains, whether as an employee, employer, supervisor, or manager, Islam prefers to adopt a holistic vision or conceptualization of industrial relations as fraternal and cooperative, rather than as having opposing interests (complimentary versus conflicting interests).

For the first six centuries of Islam, industries were organized in corporations or guilds that were very powerful. However, following the post-colonial period, many MMC governments banned unions and strike action because they were deemed to be political and security threats. Where unions were allowed, they privileged nationals and excluded foreign workers (Syed 2010).

Thus, one of the strongest and most consistent external criticisms of Qatar and the Gulf States has been the prohibition against foreign labor forming trade unions, collective bargaining, and strike action. Qatari labor law does provide for the formation of labor unions but is largely restricted to Qatari citizens. Since only 6 percent of the workforce are Qatari citizens and less than 1 percent employed in the private sector, the provision is deemed largely irrelevant. There are provisions for “joint committees” at the enterprise level, though with equal representation from employers and employees, but these cannot be considered unions, although they may be the location for collective dispute resolutions (see Qatar Labor Law, 2014, Articles 116–124).

Drawing on the work of Gamal al-Banna (*al-Islam wa'l Harakah al-Naqabiyyah*), Kamali (2011, 172) argued that trade unions are not only acceptable, but necessary “to prevent exploitation and ensure justice,” for that is also a primary goal of Islam. But this comes with religious conditions and convictions:

A *Shari'ah* compliant workers union must, however, internalize Islamic values and conduct its activities as a carrier of its message, which is the quest for justice in the first place. It should neither be aligned with socialism nor capitalism, nor should it become a partisan movement that only fights for a faction at the cost of the common good for society.

(Kamali 2011, 173–174).

That is, Islamic trade unions should differentiate themselves from the conventional union activities that are confined to bargaining for wages and conditions of work. Islamic trade unions must include the spiritual element that work is in the “service of God and must therefore integrate the meaning of religion and its teachings on trust, honesty and God-consciousness” (Kamali 2011, 174). Indeed, “the *fiqh* literature does not address this subject [workers’ associations] in any details as workers unions did not exist in earlier times” (Kamali 2011, 173).

Strike action is not formally banned in Qatar, but it requires a number of procedural actions before it may be carried out, with at least two weeks’ notice being given. When they occur without authority, workers are likely to be deported, as is the case in other Gulf States. Hearing a case against an employer is difficult and permission to collectively withdraw labor is unlikely. Unfortunately, without legal representation (which unions usually provide) it is almost impossible to do (see Gardner *et al.* 2014).

From an Islamic perspective, according to Qureshi and Tabakoglu, “Islam discourages wildcat strikes and lockouts” (in Azid 2005, 97). This arises because Islam does not accept the idea of conflicting class interests in the Marxian sense and assumes a classless society. Employers and employees are viewed as essential elements in the production process without distinction. In this sense, it “presents a solution to the conflict between labor and capital” (Azid 2005, 105). There is a God-given balance to everything and so the different factors of production are seen as complementary. Further, from an ethical perspective, because “Islam determines all rights and duties for both parties [employers and employees], there is a minimum chance of conflict occurring” (*ibid.*, 107). As Tripp points out, nineteenth century Islamic scholars

acknowledged that disparities of wealth existed and that absolute material equality was neither achievable nor desirable, but they did not believe that this should be the basis for class formation and social division.

(Tripp 2006, 55)

Idealistically, conformity with Islamic principles of fair wages, decent work and living environments, and the prevention of exploitation should obviate the need for industrial relations conflict. Islam does admit that conflicts or disagreements between employees and employers can occur, that we are all human and vulnerable to violations of ethical principles and practices, but that fairness and justice must prevail for both employers and employees. In a 2002 fatwa (84820) on IslamOnline, a Qatari-sponsored website, it is stated: "If the objective [of a strike] is to get some rights for the workers, such as getting delayed salaries, then there is no harm in doing this, because the employer has not fulfilled one of the conditions of the contract" (in Quasem 2014, 11).

In almost all MMCs, the right to work is a public policy. However, in case of disputes between employers and employees, the state often serves as the ultimate arbitrator. Though the objective is to defend and protect workers' rights and ensure the welfare of the society, in many cases, government officers or judges in the Labour Court, have no coherent guidelines upon which to make their judgments.

(Syed 2010, 458)

The role of the state in industrial relations disputation is also recognized in the Cairo Declaration of Human Rights in Islam (1990, Article 13), which states: "Should workers and employers disagree on any matter, the State shall intervene to settle the dispute and have the grievances redressed, the rights confirmed and justice enforced without bias."

Thus, the Qatari Labor Law of 2004 requires that, if a dispute cannot be initially resolved within the enterprise joint committee, the Department of Labor at the Ministry of Labor and Social Affairs is to be notified of the issue by both the workers and employer. If it is not resolved at that point, the department will mediate. If the mediation does not work within 15 days, and if the parties are willing, the department will refer the issue to a conciliation committee, which will consist of the chairperson appointed by the minister and representatives from the employer and employees. Specialist consultants may also be invited. A decision on the dispute must be made within one week, which is to be binding for both parties. If either of the parties is not willing to participate in a conciliation committee, the matter is referred to an arbitration committee consisting of a judge as the president, a nominee of the minister, a representative from the Qatar Chamber of Commerce and a representative of the workers nominated by the (exclusively Qatari) General Union of the Workers of Qatar. Employers must continue to employ the workers during a conciliation or arbitration process (see Qatar Labor Law 2004, Articles 128–134). It would seem that only Qataris are allowed strike action if the dispute settlement procedures fail. Strike action requires agreement by three-quarters of the General Committee of Workers of the trade or industry and two weeks' notice. Strike action is not allowed in "vital public utilities such as petroleum and gas related industries, electricity, water, seaports, airports, hospitals and transportation" (Qatar Labor Law 2004, Article 120).

Islamic moral principles in practice (with state or religious intermediaries) are a challenge to Islamic assumptions of a harmonious unitary structure of production, an ideal that requires practical solutions in the reality of industrial disputation. The assumption that relations of work between employer and employee “are not merely mechanical but become fraternal” (Azid 2005, 100) is a largely unrealized objective, particularly where a wide gulf exists between Qatari citizens and non-citizens and where laws provide strict limitations to collective bargaining and collective action. On employment relations, Syed (2010) provides an instructive tension between the adversarial pragmatism of Al Banna, whose focus is on Islamic justice, and the idealist assumptions of egalitarianism of Al Faruqi, whose focus is on harmonious unity. Citing Al-Mawardi, Syed explains that employers should refer to the Islamic courts for the assessment and resolution of labor disputes. The reality of contemporary Qatar and other GCC countries suggests that the state has no tolerance for disharmony or collective disputation between employees and employers. Clearly, spontaneous actions that result from the pent-up frustration of unresolved disputes are deemed unacceptable.

4. Debt bondage and usury

What is also interesting, particularly from the perspective of migrant workers, is the Islamic abhorrence of debt. Being in debt while going to and being in another country is an undesirable burden that makes one vulnerable away from home. Even gifts are a burden. As the anthropologist Marcel Mauss (1990/1920) points out, a gift brings with it the moral obligation to reciprocate – that is, to return the gift in some way. In this sense, a gift may be synonymous with a debt: “the Prophet and his Companion [Abu Bakr] were going through a trial of vulnerability. . . . When Muhammad emigrated, he took care to owe nothing to anyone (he refused gifts, settled his debts and gave back the deposits he held)” (Ramadan 2007, 82). His obligations and debt were to be to God alone. Thus, we have an episode in the very early days of Islam that indicates it to be necessary that migration should be unburdened by debt in order for the migrant to be able to establish his or her goals. In his last speech, the Prophet included the following: “All debts must be repaid, all borrowed property must be returned, gifts should be reciprocated and a surety must make good the loss to the assured” (Siddiqui 2008, 90).

The characterization of migrant workers being “trapped” on arrival in the country is not far from the truth (International Labor Organization, 2013). Those who are trapped, however, are more likely to be those who have taken out loans, sold family assets, and used hard-earned savings to pay recruitment agencies exorbitant amounts to secure a job. The amounts they pay can range from \$600–\$2,000 and those who expect higher-paying positions can pay up to \$10,000. Those taking out loans, from loan sharks, banks, or the recruitment agency itself, have to pay usurious interest rates ranging from 30–60 percent (Endo and Afram 2011). The entrapment arises because once the person arrives in the country they must accept whatever is offered to them, even if it is something far less than they were promised or agreed to before departing their home country. They have no means to turn back and return home. They would need to repay the loan and interest and they would have to pay their return airfare, which they do not have. Unbeknown to the migrant workers, much of the money they pay recruitment agencies is used for kickback bribes to personnel of the employing companies in the destination countries (see Jureidini 2014).

There has been a history over these practices that has been characterized as a “blame game,” where the destination country blames those in the origin country and vice versa. In the scenario described in the previous paragraph, it seems clear that there is collusion between the intermediaries in the origin countries and those in the destination countries (for greater detail, see Jureidini 2014). In an age of globalization, with bilateral and multilateral governmental collaboration, “hiding” behind arguments that the sovereignty of nation-states cannot be interfered with does not seem convincing. Turning a blind eye to the circumstances by which workers are recruited is no longer considered acceptable. Workers in debt are obliged to work until their debts are paid. In Islam, debt is something that is abhorred. An individual’s soul cannot rest until his/her debts are paid. Hassan (2011), in a passionate critique of *riba* in Western finance and the superiority of Islamic finance, says emphatically, “we cannot tolerate going to bed one night in debt.” While debt obviously occurs, *Zakat* can be used to alleviate it for those who are unable to.

Should Muslim employers allow or accept that their employees are in debt, specifically in order to be employed by them? This is an important issue because of the vulnerability it places the migrant worker in, leading to debt bondage and forced labor. ILO Convention 181 stipulates that workers should not pay recruitment agency fees. Indeed, the Qatari Labor Law also prohibits recruitment fees being paid for by workers (Article 33). The fact that exorbitant charges to workers in the origin countries, some of which is paid to employers in the destination country in the form of bribes, means that intervention is required. The debt certainly guarantees a low labor turnover but it is contrary to Islamic principles, Qatari law, and international labor law. It would seem, therefore, that Qatari employers are implicated in the usury practiced in the origin countries (even if without their knowledge) and should be obliged to act against it. Jureidini (2014) and others have recommended that a reformed system of recruitment that deals only with “ethical recruitment agencies” who do not take money from workers will go a long way to undermine the debt bondage and the corruption that accompanies it (see also Verite 2013).

There have been examples of employing companies reimbursing workers the money they paid to recruitment agencies. For example, in 2010, computer company Apple Inc. decided, as a result of an audit of their suppliers, to reimburse migrant workers for the recruitment fees they had paid since 2008 (the total amounted to \$2.2 million) (Handley 2012). Other examples, including Nike and the US State Department, have emphasized the ethical problems associated with migrant workers paying agents to get jobs. Indeed, the worker welfare standards instituted by the Qatar Foundation in 2013 and the Supreme Committee for the 2022 World Cup in 2014 mandate that workers are not to pay recruitment agencies, either in Qatar or in their home countries. These principles, however, are based upon international standards as in the International Labor Organization’s Convention 181 and Qatar’s Labor Law (2004). In a recent case in Qatar, a contractor seeking to comply with worker welfare standards reimbursed their employees all the money they had paid the recruitment agency, but in turn claimed those funds back from the agency.

From an Islamic perspective, the reimbursement of workers’ debts for recruitment charges (better known as extortion) can be invoked as a responsibility of the employer or *kafeel*. The Islamic Encyclopedia identifies a type of *kafala* coming from the *fukaha*, likening it to the Western institution of the “surety bond,” namely the *kafala bi’l-mal*, by which “the surety [*kafeel*] stands as a pledge to the creditor [*makful labu*] that the obligation of the principle debtor will be fulfilled.” While there are several nuances to cater for different conditions and agreement conditions, this is nonetheless a promising avenue to propose an Islamic remedy

to the debt bondage circumstances that most migrant workers face. In other words, the *kafael* acts as a guarantor for the loan and repays the debt. More importantly, perhaps, is seeking the elimination of these recruitment payments by workers altogether, obviating the debt.

5. Wages

A very powerful principle of justice in Islamic sharia is enshrined in the teachings of how to treat employees or labor. Syed refers to the concept of *ehsan*, namely “goodness and generosity in employee relations [with] a special emphasis on social justice and considers ethical behavior to be an integral part of Islamic economics” (Syed 2010, 460).

The most common complaints of migrant workers in Qatar and the other GCC countries concern wages; that they are: (i) not paid what they were originally promised; (ii) they are not paid at all; and (iii) they are not paid on time. Islamic principles insist that workers should be paid on time and with a preagreed transparent wage or set wage. Quoting Ibn Taimiyah, Azid (2005) explains that wages should be agreed to and fixed before the commencement of the work, “so that the employer might not reduce their wages, nor the labourers demand more than their due wages” (Ibn Taimiyah, in Azid 2005, 115). However, in the recruitment of migrant workers, there is a widespread practice where workers do not sign a contract until their arrival in the country, or the predeparture contracts agreed to are substituted by another contract with lower wages (Jureidini 2014). In countries like the Philippines and Ethiopia, where there is joint liability legislation, workers can seek reimbursement for the wages lost from the recruitment agency. Mostly, however, workers have little or no redress for fear that by complaining they will lose their jobs and be repatriated or deported back home.

Migrant workers are very reliant upon being paid on time, because most of their wages are remitted home to support their families. Delayed payment therefore affects the livelihoods of their families. Further, their wages must also be used to pay their debts. Non-payment of debts on time can also affect their families, who may be threatened with retribution. The Islamic principle of paying wages properly and promptly is summed up elegantly by the dictum “give the laborer his wages before his sweat dries away” (Ibn Maajah). In response to many complaints over many years, Qatar has recently announced that it will introduce legislation mandating that employers make direct transfers of wages into bank accounts, so that there are official records of the amounts paid and the timing of payments that can be reconciled with the contract.

Another wage issue is the violation of the principle of equal pay for equal work. Drawing on Al Farouki, Azid (2005, 99) states that “Islam stands for equal pay for equal work” and also “it is not permitted to make women and children work for less wages, because exploitation of human resources is not allowed in Islam” (ibid., 97). In Qatar, however, there are numerous examples of workers in construction, services, and domestic work being paid different wages. For some, the differences may be relatively small, but for others they may be quite considerable. These wage differentials are mostly based on nationality. For example, both males and females from the Philippines are likely to receive a higher wage than those from Bangladesh or Nepal doing the same work, but less than those who are from Turkey or Lebanon (see Jureidini 2014). At best, it could be argued that such wage differences arise because labor recruitment takes place on international labor markets, with labor origin countries competing with one another. It is also unclear how the wages are determined. Labor origin country governments provide recommended wage levels by occupation and there are also bilateral government negotiations as well, including for migrant domestic workers. In the absence of

standardized wages according to occupation, it is not clear how the wage differentials are to be overcome. In most countries, this has been established over many decades with collective and sometimes tripartite bargaining.

6. Muslims, non-Muslims, citizens or non-citizens?

Azid (2005, 102) emphasizes that “Islam does not differentiate between Muslim and non-Muslim workers. The rights of labor are clear in this system.” That is, labor is undifferentiated according to religion and nationality. It would seem, therefore, that all Islamic ethical principles concerning labor and labor relations can be applied to foreign contract labor in Qatar and the Gulf States. In reality, there are distinct differences in the privileges of citizens compared with non-citizens. The United Nations Convention on the Protection of the Rights of All Migrant Workers and Members of their Families (1990/2003) insists that migrants should be treated equally as the citizens of a country. This convention has had relatively little support worldwide and has not been ratified by any of the GCC states. It is unlikely to be, given the strict social, political, and economic demarcation lines between citizens and non-citizens under the *kafala* system.

From the official English website of GPSRI, *alifta.net*, Asadov (2015) cites *fatawa* advising that non-Muslims generally should be removed from the Arabian Peninsula and that non-Muslims should certainly not be employed as drivers or servants. He explains that the judgment does not make sense in reality because they are allowed to be there by law and because there is a high dependency upon foreign and non-Muslim labor in the country (and throughout the GCC). Using Nancy Fraser’s (2008) conception of abnormal justice, it is argued that justice for migrant workers under these conditions cannot be pursued or achieved by normative discourse, for there is no single conception of justice. The issues that have been raised concerning migrant workers in MMCs

have been shaped by modern phenomena of globalization, transnational migration, neo-liberal trade structure, inequalities caused by global capitalism, increases in extreme poverty and international conflicts. To redress injustices under these ‘abnormal’ circumstances requires arguments beyond state-centered, territorial bounded and ‘distant other’ understanding.

(Asadov 2015, 14)

Conclusion

In this paper, I have tried to discuss a number of issues as they pertain to the contemporary problems and criticisms of Qatar in relation to the condition and treatment of its foreign workforce. In an attempt to understand the Islamic principles and ethics as applied to these problems, we can posit that many of these complaints by and on behalf of migrant workers refer to violations of Islam as well as human rights as expressed in secular discourse.

What seems to me to be a glaring absence is, first, the lack of reference to Islam and Islamic jurisprudence in Qatari labor law and the law of sponsorship. These documents, although sometimes poorly written in the English versions, do not make it clear that there are Islamic foundations to their drafting. At the same time, the many critical reports on Qatar’s treatment of migrant workers from organizations such as the International Labor Organization, Amnesty International, Human Rights Watch, the International Trade Union Confederation, and the United Nations High Commissioner for Human Rights (and others) make no reference at all

to Islamic ethics and jurisprudence. There seems to have been little or no consideration of the particularities of Islamic religious and cultural norms and beliefs as a part of their engagement with these important and often profound issues.

It has been suggested that “Islam’s normative teachings are inconsistently followed in MMCs, and remain heavily influenced by local cultural traditions” (Syed 2010, 465). Apart from the generalized rules of justice and equity, “Islam does not give a detailed plan for employment relations, nor was it possible to have such a plan because of the temporal and technological gaps between the advent of Islam and the industrial revolution in the west” (ibid.). However, it does not seem adequate to explain the absence of ethics and justice by reference to “local cultural traditions.” Perhaps more enlightening, Quasem (2014) asserts that the labor relations discourse in Qatar (and the GCC) is overwhelmingly secular, with almost no reference to Islam in the construction of Qatar’s labor and sponsorship laws, in the media debates about migrant rights violations and proposed reform, or in the complaints by Muslim foreign workers. Even the *ulema* (Muslim religious scholars), it is argued, are themselves controlled by the *kafala* sponsorship and engaged in self-censorship in the face of an “all-powerful state,” resulting in “a complete absence of policies influenced by this class [*ulema*]. . . . In both the principle and practice of human rights discourse, Islam in Qatar is inaccessible” (Quasem 2014, 12–13). Indeed the history of European colonization and modernization was accompanied by “the wholesale adoption of Western models of legal codification. This meant abandoning the medieval treaties of Islamic law” (Zulfiqar 2007, 431).

It is hoped that raising the issues of debt bondage and forced labor, of wages and wage payment, of control and freedom of movement can attract more Muslim policymakers into engaging with reform that will eliminate the worst forms of violations of ethical principles and human rights for those who are most vulnerable to exploitation. Interestingly, it has been suggested that

some managers in MMCs may believe that they are following Islamic instructions in their conduct despite contradictory evidence. Therefore, Western managers [or human rights critics?] should not confront them directly but should carefully sensitize them to the reality of conflicting demands of work and faith.

(Syed 2010, 465)

In Qatar, five main legislative changes were promised for “early 2015,” though these have now been postponed to “late 2015”:

- i) The *kafala* system will take sponsorship out of the hands of individual citizens (who currently have the authority to determine who enters and exits the country and who can change employers). The sponsor will be the state, which is normally the case.
- ii) All employers will be required to pay wages through a bank transfer. This will provide an official record of whether the wages are being paid properly in terms of the amount and whether they are paid on time. These two are the major complaints by workers in Qatar.
- iii) The exit visa requirement will be abolished, but employees leaving the country must give 72 hours’ notice. This will give time for employers to object and request a travel ban. For this they must provide a valid reason, which will (hopefully) require a proper and prompt judicial review with conciliation and arbitration procedures.
- iv) No Objection Certificates (NOCs) are currently required from an employer/sponsor if a person wants to change employers in Qatar. The new provision will allow workers to

change employers without permission at the end of their contract. If a contract is “indeterminate” it will be after five years of employment.

- v) Currently if an employee finishes a contract and returns home, he or she still needs an NOC if he or she wants to return to Qatar to another employer. Without that, he or she cannot return for two years. That period will be reduced to six months.

It is by no means clear that all of the rights violations identified are perpetrated by Qatari citizens and the Qatari authorities. They are not. Non-Qataris, both Muslim and non-Muslim, are involved in the day-to-day practices of discrimination, exploitation, and humiliation. But Qatar is ultimately responsible, as the state has acknowledged. As a fundamental principle in sharia, “Human beings are born free, and no one has the right to enslave, humiliate, oppress or exploit them, and there can be no subjugation but to Allah the Almighty” (Cairo Declaration of Human Rights in Islam 1990, Article 11a). Although the current proposed reforms may not meet the standards being asked of them from external critics, there is momentum. To what extent these reforms will be implemented, and implemented in a timely manner, remains to be seen. What should be made clearer, however, is that there are (or should be) fundamental Islamic principles that lie at the heart of the understanding of the role of work and treatment of labor within an Islamic economic system. The distinction between the normative principles of Islam and the actual practices as applied to migrant workers in Qatar and the GCC is not a cause for mere criticism, despair, or demonization, but an ongoing call for radical enlightenment and reform.

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Inequality, the labor market, and economic growth in the MENA region

Is governance the missing ingredient to alleviate the situation?

Siham Matallah, Chaib Bounoua, and Mohamed Benbouziane

I. Introduction

Inequality is clearly one of the critical issues facing the MENA region today; although measurement problems abound, it is unanimously accepted that inequality has increased even further and that its symptoms are spreading across the region. The immense inequality acts as a growth inhibitor; it can trigger a general social dysfunction by affecting health, education, and employment, and thus expanding poverty and depriving the lower social classes of the growth spillovers. It can also engender bitter class hatred and malice that can shake the political stability and curtail economic growth in developing countries.

The bulk of the research literature dealing with the skilled–unskilled wage inequality underestimates the importance of institutional quality because it assumes the absence of bad institutions, unproductive activities, and the inefficient use of economic resources, but the reality is quite different. The dire consequences of inequality can decay in the presence of good governance that provides opportunities and equal access to public services for the whole population by prohibiting discrimination against marginalized and vulnerable groups (Haq and Zia 2006).

Since the early to mid-1990s, the swelling public sector associated with the reduced significance of education and land ownership in pinpointing economic policies has revealed the harsh features of increasing inequality in most MENA countries. In fact, the salient regional, rural–urban and socioeconomic group differentials have widened even further (Belhaj Hassine 2015). Inequalities within the MENA region mainly relate to distortions in regional development strategies and policies that have led to futile market-oriented reforms and hampered inclusive and equitable socioeconomic development. Furthermore, the synchronization between the slower pace of inequality reduction, job creation, and timid growth rates that have lagged behind other regions since the late 1990s has been considered a crucial factor in creating a drag on the region’s economy.

Many Arab countries have strived to reduce income inequality and poverty, and grappled with the challenge of pushing up their growth rates, by directing policy action toward employment. However, MENA governments’ efforts to revitalize their economies and reform their labor markets by resorting to market-based policies and private-sector promotion strategies yield varying benefits depending on the levels of human capital endowment, and thus entail visible differences in income and aggravate the inequality gap (Belhaj Hassine 2015). Inflexible labor market regulations and outdated and ineffective education systems coupled with a bloated public sector are the basic reasons that the MENA region’s unemployment rate has risen, constraining economic growth and job creation below its potential. In addition, the

urban bias in development strategies undertaken by Arab governments has negatively affected the ability of the poorest and middle-class households to build their endowments, leading to increased inequalities and labor market distortions.

The declining standards of living, rising unemployment, and growing inequalities appear to be the root causes of the 2011 Arab revolts. Moreover, the wave of political instability and social unrest sweeping across the Arab region has exacerbated a spiral of economic pressure, social breakdown, and horrendous inequality (AfDB 2012). The rising popular discontent has started to point fingers at the political endeavors. The Arab Spring and its aftermath have prompted many Arab governments to reconsider their inequality-related policies. Pro-equality voices from the Arab Spring have brought the quality of institutions and governance to the front burner of MENA governments' attentions. As well as this, there has emerged a growing concern among scholars, citizens, activists, and policymakers about governance, especially in the post-Arab Spring economic downturns. Governance in the MENA region has further deteriorated after the Arab Spring upheavals and turned out to be disappointing. Despite the reform initiatives undertaken over the past two decades, there are still several loopholes and weaknesses that have left room for chaos and economic recession, because these reforms were less far-reaching than has been expected. Almost all the six indicators of governance score low enough to be in the bottom, painting a dismal picture.

There is a dearth of empirical evidence linking governance to the triptych inequality – labor market growth. Accordingly, we seek to clarify and evaluate the impact of inequality and the labor market on economic growth in the MENA region by zooming in on the role of governance in 10 MENA countries (Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey, and Yemen) over the period 1996–2013. For the above-mentioned purpose, the paper is divided into five sections. After introducing the topic in section 1, section 2 presents the theoretical background and empirical indicia relating to the inequality–employment–growth triptych and the role of governance, section 3 discusses inequality, employment, and governance in the MENA region in order to determine the coordinates of the current Arab situation and conduct a feasibility analysis, section 4 introduces the data, explains the methodology, and analyzes the empirical results, and, finally, section 5 concludes the paper and draws some policy implications.

2. Theoretical and empirical review of the inequality–employment–growth triptych and the role of governance

Inequality is deemed to be one of the biggest inhibitors of economic growth and its ability to reduce poverty. Given the inconclusive empirical evidence on the inequality–growth nexus, it is widely accepted that inequality not only leads to lower potential growth levels but also ensures that developing countries will struggle with extreme poverty. Inequality makes families with dependent children more vulnerable to serious economic hardship, and it is certainly plausible that wealthy parents can appreciably influence their children's economic future by enabling them to live in the ideal social environment and providing them with golden job opportunities, and this is a major facet of opportunity inequality (Marrero and Rodríguez 2013). Thus, government spending can improve developing countries' economic welfare, especially when that spending is on education and job creation that provides strong forward linkages to the whole economy (Shafique and Haq 2006). Further, increased educational opportunities allow poor people to access gainful employment and hence reduce poverty and inequality (Mamoon and Hasan 2006). It is always the limited access to, and poor quality of, public services that makes the burden fall heaviest on the poor and disadvantaged. Therefore, good governance

implies that all citizens should have equal opportunities and the same rights, because it affects the way in which resources are distributed and ensures that governors are held accountable for what they do (Kaufmann *et al.* 2007). On the other hand, poor governance typically frustrates efforts to improve infrastructure, education, and health care, prolonging existing inequality and poverty traps that are intractable dilemmas facing developing countries.

Indeed, low-skilled individuals face a high risk of unemployment due to the increased demand for high skills and competencies (Giesecke *et al.* 2015); further, labor market institutions such as the minimum wage, unions, employment arrangements, job security provisions, labor legislation, and wage-setting mechanisms have emerged as one of the most important sources of labor market rigidities; they are also blamed for reducing the demand for low-skilled workers and depriving them of employment opportunities. Thus, the poor became trapped between the strictness of labor market regulation and the complacency in social programs, and this engenders bitter class hatred and malice that can shake the political stability and curtail economic growth in developing countries (DiPrete *et al.* 2006). Besides this, trade unions limit employers' ability to pay below the official minimum wages, decreasing employment for low-wage workers, e.g. young people, the illiterate, the low-skilled, women, and older workers, who are generally considered less productive. For example, the elderly are more likely to face age discrimination and encounter scant reintegration opportunities in the labor market, thus providing pre-retirement and post-retirement training programs, activating older people, and encouraging employers to hire them can prevent ageism (Dieckhoff *et al.* 2015).

There is unlimited debate aimed at dispelling the obscurity surrounding the root causes of this phenomenon, and it seems obvious that the institutional quality contributes to the improvement or worsening of the growth effect of inequality.

How much do governance and institutions matter in this situation?

Governance enables governments to use all available economic resources in the most effective manner possible and to build a more conducive business environment to production activities and overall growth. For instance, government effectiveness and regulatory quality play a key role in combating poverty and inequality; they ensure good macro management and promote pro-poor policy outcomes (Haq and Zia 2006). As governance crumbles, a situation characterized by property rights violations, social violence, instability, and suppression of freedom prevails and a spiral of chaos arises. The negative growth effects of income inequality can partly be traced back to the destructive impact of conflict and uncertainty on investment, this conflict can often exert strong pressures on policymakers to create and foster growth-inhibiting macro policies (Seguino 2000). The huge gap between rich and poor can prompt social unrest and political instability and provide momentum for economic upheaval. Also, the imminent threat to political stability reduces the government's propensity to pursue growth-enhancing public investment; it instead forces policymakers to work within unreasonably short timescales which are too tight to ensure a dignified life for present and future generations (Nel 2003).

In the same vein, favoritism and bribery, which exhibit a considerable bias in property rights enforcement in favor of the wealthy and powerful and at the expense of the poor and industrious working people, spread the infection to other institutions, thus subverting the entire economy (Gradstein 2007). Therefore, improving the law and order situation, enhancing government effectiveness, and ensuring political stability can help stimulate employment and output growth, hence the absence of one of the three above-mentioned elements can lead to lower growth rates that cannot contribute to solving the intractable problems of unemployment, income inequality, and poverty (Shafique and Haq 2006). The main target of good

governance goes beyond just increasing per capita income; it seeks to provide equality of opportunity for all and ensure that the fruits of economic development are enjoyed by the entire population.

“Institutional poverty traps” is a term coined by Bowles (2006) to reflect the institutional designs that perpetuate poverty, deprivation, and income inequality. More precisely, poor institutions induce economic agents to engage in unproductive activities and quickly reap substantial benefits rather than engaging in productive and growth promoting activities. In other words, essential resources, such as capital and skilled and unskilled labor will be used for unproductive activities in a weak institutional environment, widening the skilled–unskilled wage differential and impeding the efficient allocation of labor (Pi and Zhou 2013). By contrast, effective and accountable institutions resolve disputes and protect the poor against elites, since they can eliminate the appropriation of the poor’s income through rent-seeking practices by the rich and weaken the small band of wealthy elites’ grip on the reins of political power.

Corruption in education is the most obvious phenomenon around the turn of the millennium; corrupt administrators do not hesitate to exploit public money allocated to students for their own ends, and this is a major hindrance in preparing graduate student for today’s job market, alongside lack of integrity, unethical behavior, bribery, nepotism, patronage, and the marginalization of hard-working students from poor families who cannot afford all that, cannot opt out of the public education, and do not have a strong enough voice to call for accountability, thus, the labor market can only absorb poor quality workers, pulling the development process further and further back. Hence, there is a stringent need to eradicate corruption, starting with the educational system, which is responsible for making good, respectful, trustworthy, law-abiding citizens. Indeed, it stands to reason that political influences on judicial action have led to the subversion of institutions and successfully thwarted attempts at reform, causing an inability to handle corruption (Chong and Gradstein 2004). The fruitful achievements in the process of education modernization require a system that forecasts the future supply and demand of graduate students and determines the probability of finding jobs in their fields of study, and it is quite intuitive to indicate right here the need for a strong health care system that promotes healthy lifestyles among people (Kamasheva *et al.* 2013). In general, improving the governance framework by embarking on deep and extensive institutional reform is a top priority to repair the damaged economic and social tissue and enhance the impact of equality on economic growth.

The table below summarizes the empirical studies that have investigated the impact of inequality on employment and economic growth, and also the role of governance in mitigating the growth effects of inequality.

Table 8.1 Empirical evidence on the link between inequality, the labor market, governance, and economic growth

<i>Authors</i>	<i>Sample</i>	<i>Empirical approach</i>	<i>Results</i>
Nel (2003)	Southern and northeastern Africa 1986–1997	Ordinary least squares (OLS) technique	Higher levels of inequality seem to negatively affect <i>medium-term potential growth</i>
Schober and Winter-Ebmer (2011)	54 countries 1975–1995	Panel data analysis	Gender inequality <i>frustrates economic growth via employment</i>

<i>Authors</i>	<i>Sample</i>	<i>Empirical approach</i>	<i>Results</i>
Kakwani et al. (2010)	Brazil 1995–2004	The shapely decomposition methodology	Government social policies <i>have</i> a pertinent <i>influence</i> on the <i>protection of the poor</i>
Chong and Gradstein (2004)	121 countries 1970–2000	An innovative panel VAR technique	Higher governance scores are positively associated with <i>improvements in income</i> ; and political stability appears to have the largest <i>inequality-reducing impact</i>
Shafique and Haq (2006)	Four SARRC countries 1996–2005	System GMM method	Political stability enhances welfare by improving income distribution. Further, regulation and control of corruption exhibit a strong impact on output growth
Chong and Gradstein (2007)	121 countries 1960–2000	GMM-system estimator technique	Poor institutional quality is a handicap to inequality reduction

Source: constructed by authors

3. Inequality, employment, and governance in the MENA region

3.1. Inequality in the MENA region

Inequality is clearly present in all MENA countries and, further, health and educational disparities are also apparent within these countries. This phenomenon has remarkably persisted and even grown dramatically in Syria and Yemen over the last few years; it appears to be caused by the geographical location of the household and the head of household's educational attainment. Belhaj Hassine (2015) indicated that specific household characteristics such as education (in particular, the levels of household heads' educational attainment), demographic composition, and geographic location are the major contributory factors in the Arab region's patterns of inequality. Indeed, gender egalitarianism in Arab societies has become less pronounced than it used to be, allowing women more social, economic, and political opportunities that were traditionally reserved for men; but employment discrimination against women is still practiced in some Arab countries, therefore raising awareness of women's empowerment by highlighting the social and economic benefits of women's work can reduce the rigid social patterns and accelerate the development process.

A state-led model of economic development characterized by the dominance of the public sector has been adopted by most Arab countries after gaining their independence, and this sector was almost the only supporting pillar for alleviating poverty, reducing income inequality and promoting human development indicators (World Bank 1995). In fact, dwindling oil prices in the mid-1980s demolished hopes for better standards of living through the introduction of severe austerity measures that hit the poor hardest and exacerbated inequalities, exacting a heavier social cost. Moreover, the structural adjustment reforms undertaken by MENA governments in the 1980s substantially benefited some regions more than others, especially in terms of the provision of physical and social infrastructure, causing widespread

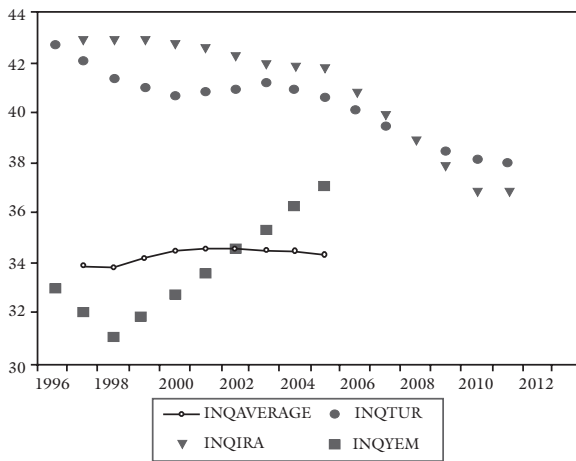
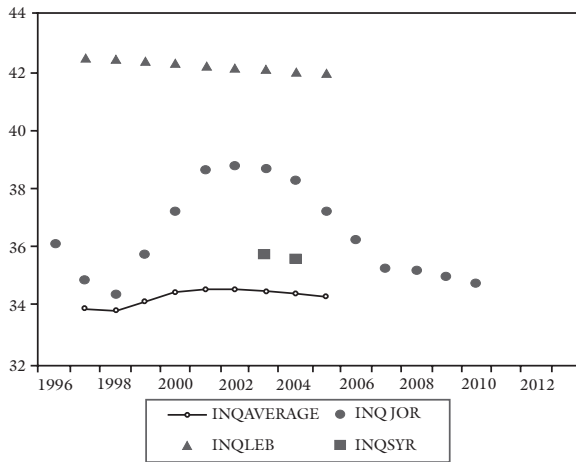
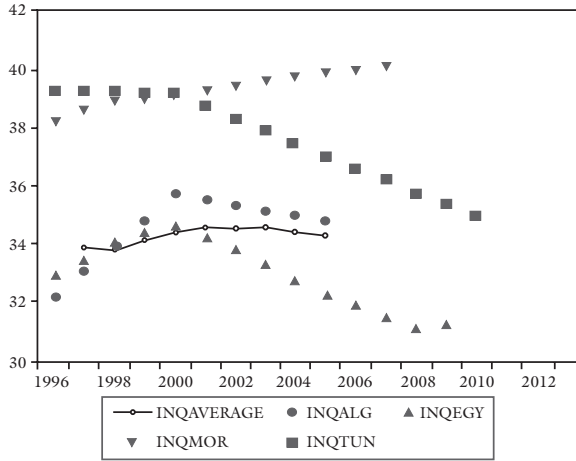


Figure 8.1 Inequality in MENA countries, 1996–2011

perceptions of socioeconomic inequalities and harming the performance of the labor market, thus depriving national economies of the lagging regions' contributions. Additionally, the growing regional disparities and rural–urban divide trigger, inter alia, social, political, and economic instability that could destroy the popular consensus supporting the transition phase in the Arab world. Therefore, this position has signaled the dire need to address inequality issues and initiate broad-based reforms for providing equal employment opportunities and stimulating economic growth.

3.2. Employment in the MENA region

The graph above clearly shows that the MENA region has failed to substantially increase employment and, moreover, is in danger of falling further back. This graph illustrates that Morocco, Lebanon, and Turkey clearly outpace the other MENA nations in terms of employment growth, as a result of their intention to provide more active labor market policies. Governments in most MENA countries often act as employers of first resort to provide jobs, especially for those with high and middle levels of education. Unemployment is strongly concentrated among unskilled workers and those who have not obtained postsecondary diplomas or received vocational education, and it is worth noting that individuals are born unskilled and hence their chances of entering the labor market can be easily frustrated by unjust income inequality. In addition, the rising spatial concentration of high-wage workers has pushed up income disparities. However, despite the hike in oil prices during the first half of 2000 and the associated rise in growth rates, depressive symptoms began to emerge, such as low productivity and low real wages, as well as the inefficient public sector, which crowds out investments and not only distorts the labor market but also makes it increasingly unjust. Furthermore, the swings in economic policy between centrally planned systems and market-oriented economic systems in the region have generated significant economic inefficiencies and labor market failures.

The MENA region has a large young workforce that, if given the opportunity, would meet the region's demand for goods and services. In fact, the demographic youth bulge in the Arab world is a priceless boon and deserves great attention, but corrupt practices continue to deprive the youth of their fundamental human rights, such as health and education, that provide the main platform for an entire generation of qualified young workers ready to raise productivity and boost growth prospects, which will become a future aging workforce full of experience, knowledge, and skills that can be harnessed to support economic growth.

For instance, corruption erodes public budgets through corrupt administrators who plunder public funds and dishonestly use them for their own ends, ignoring the devastating effects resulting from the dwindling budgetary allocations to the health and education sectors.

It can be said that the Arab region, which is stuck between corruption's jaws, faces two critical issues: on the one hand, the young labor force, which remains unexploited, and, on the other, the skilled retirees who did not return to the labor market due to health concerns or the self-interested goals of administrators, particularly in the public sector, which is dominant in most Arab countries. Indeed, it almost seems impossible to build active human capital over the course of life due to widespread corrupt behavior, and this is a serious nightmare haunting these economies, especially those dependent on oil revenues.

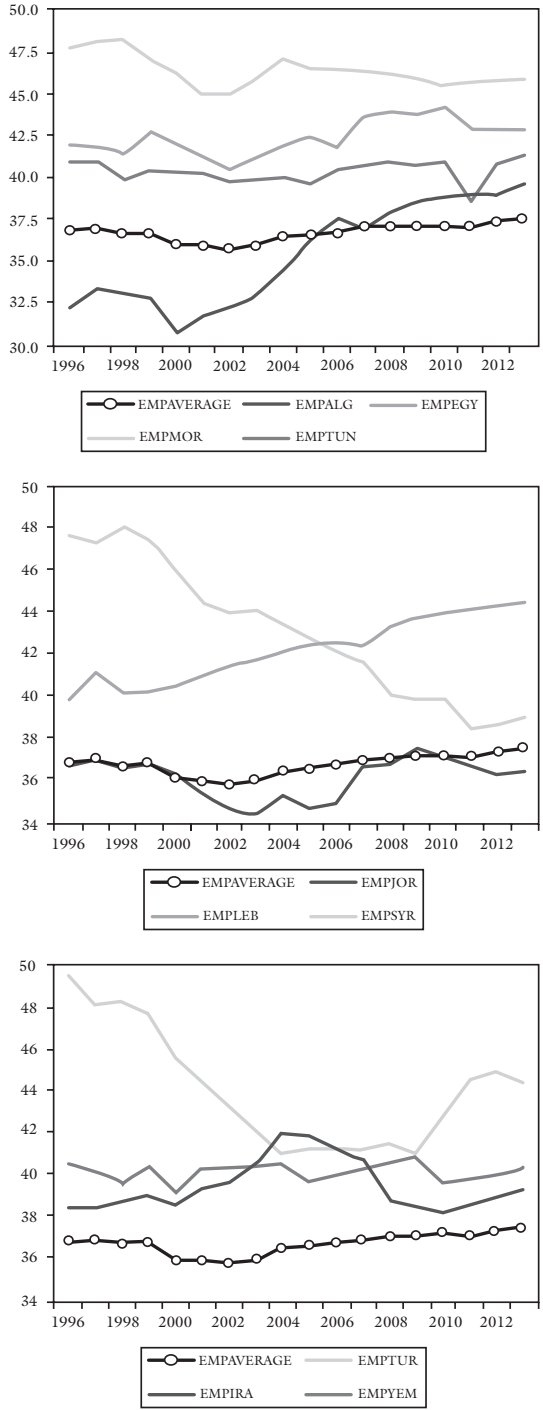


Figure 8.2 Employment (employment to population ratio, persons aged 15+, total (%)) in MENA countries, 1996–2013

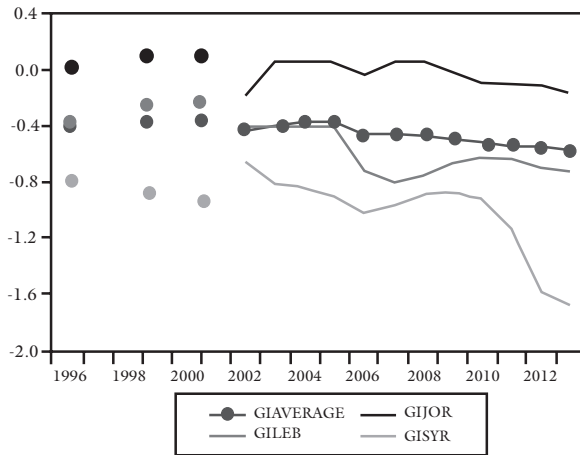
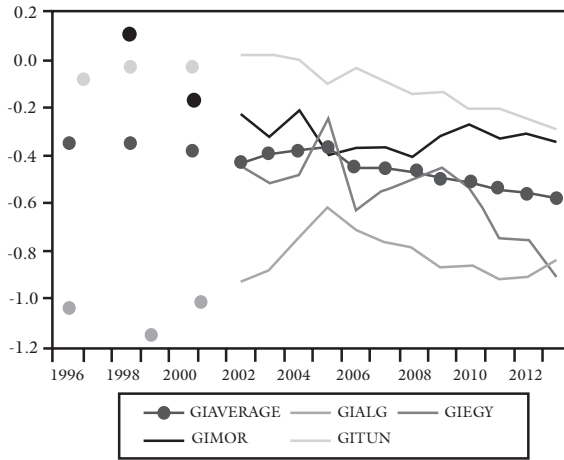
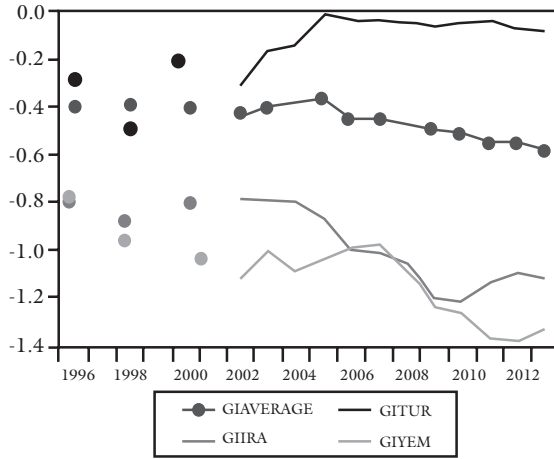


Figure 8.3 Governance index (the simple average of six worldwide governance indicators) in MENA countries, 1996–2013

3.3. Governance in the MENA region

As is clearly visible in the graph above, the MENA region's governance index is still negative, reflecting the poor political institutional quality and the delayed efforts aimed at enhancing the institutional framework. Most MENA countries have shown terrible institutional performance. Moreover, oil dependence continues to undermine institutional quality, because it does not induce most oil-abundant countries to create a sound business climate. The MENA region has performed relatively poorly in terms of its government effectiveness and regulatory quality; this partly explains the lack of improvement in poverty and inequality. Indeed, bad governance weighs down long-term productive activities, inciting economic agents to become involved in short-term activities that require less capital and labor, so that future potential risks can be avoided. Unfortunately, this situation has recently become common, hampering growth and employment in most MENA countries.

Almost all MENA countries are characterized by an inadequate regulatory framework, public-sector dominance and widespread corruption, but few nations have made important steps forward, such as the use of e-government, in order to promote transparency and accountability (World Bank 2003). Additionally, it seems that widespread corruption has spiraled out of control, and the proposed solutions have failed to deter this scourge, which not only undermines opportunities for progress in the region but also triggers instability and leaves public resources more vulnerable to political predators instead of devoting them to hasten the development process; if the situation continues as it is now, the next generation will suffer dire consequences.

4. Data and empirical results

4.1. Data

This study attempts to examine the impact of inequality and labor market on economic growth in the MENA region by zooming in on the role of governance, using an econometric methodology to estimate an empirical model that includes the following variables:

GDP: GDP per capita (constant 2005 US\$), sourced from the World Development Indicators database, is used as a proxy for economic growth (the dependent variable).

INQ: measured by the Gini index in net household income (higher values indicate greater income inequality) from the Standardized World Income Inequality Database (SWIID), developed by Frederick Solt (2014), which overcomes known limitations of existing inequality data sets by providing comparable Gini indices of gross and net income inequality for a large sample of countries over a long time span. This database is more relevant and useful for broadly cross-national research on income inequality than other available sources of income inequality data (Solt 2014). It is worthwhile to note that the empirical evidence on inequality in the region is limited and elusive due to the lack of comprehensive inequality time series data, with a particular lack of national household survey data. Therefore, this paper can overcome this problem by using this database, and thus the present study will hopefully add to the existing literature.

EMP: Employment to population ratio, aged 15+, total (%), from the World Bank's World Development Indicators (WDI) database.

GI: The governance index, which is calculated as a simple average of the six worldwide governance indicators (**VA:** voice and accountability; **PSAV:** political stability and absence of violence; **GE:** government effectiveness; **RQ:** regulatory quality; **RL:** rule of law; and **CC:** control of corruption); these indicators are scaled between -2.5 and $+2.5$, where a higher score reflects better institutions. Furthermore, this database is widely used in the empirical literature, because of its ability to include a wide range of institutions and classify them into six indicators.

Thus, the availability of data for all explanatory variables determines a unified sample period that goes from 1996 to 2013. Additionally, our sample covers 10 MENA countries (Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey, and Yemen); it has been chosen on the basis of data availability.

4.2. Data analysis tools

The panel data estimation is employed to examine the impact of inequality and labor market on economic growth in the MENA region by zooming in on the role of governance using the Eviews 8.0 software package. Because the panel data analysis controls for both observed and unobserved heterogeneity, it also increases the degree of freedom and reduces the collinearity problems and hence improves the efficiency of econometric estimates (Hsiao 2003). There are three main models: the pooled OLS model, the fixed effects model, and the random effects model. Furthermore, we also employ the generalized method of moments (GMM) dynamic panel estimator, proposed by Arellano and Bond (1991) and developed by Arellano and Bover (1995) and Blundell and Bond (1998), because it is able to overcome or circumvent the problems of endogeneity and heterogeneity that may arise in panel data models by including relevant instrumental variables. In other words, this technique can handle endogenous variables that display a high degree of persistence, especially in growth models.

4.3. Analysis of empirical results

As is shown in the table above, inequality, employment rate, and governance index seem to have the expected signs in all regression. Further, these explanatory variables appear to be statistically significant in three models, with the exception of employment rate, which tends to be insignificant in the pooled OLS model. Hence, the next step involves employing the Hausman test, which is useful in selecting between the fixed effects and random effects specifications.

The Hausman chi-square test statistic is significant at the 5 percent level of significance (probability $0.0106 < 0.05$); on this basis, the null hypothesis can be rejected. In other words, the Hausman test suggests that the fixed effects model is the most consistent one, so we focus on it in this empirical study.

The fixed effects model reveals that inequality displays a highly significant negative impact on economic growth in 10 MENA countries, and this is consistent with theory, which highlighted the harmful effects of inequality on economic growth. Moreover, employment rate exhibits a statistically significant positive effect on economic growth at the 10 percent level of significance, indicating that the removal of labor market restrictions and implementation of relevant labor market policies raise employment rates, thereby spurring economic growth. Likewise, the governance index contributes positively and significantly to economic growth

Table 8.2 Regression results for 10 MENA countries

Dependent Variable: GDP per capita

Coefficient Estimates (P-value)

Independent Variables	Pooled OLS Model	Fixed Effects Model	Random Effects Model
INQ	-306.4627 (0.0000)***	-179.1217 (0.0000)***	-168.7782 (0.0000)***
EMP	27.19207 (0.5617)	50.34240 (0.0545)*	47.34661 (0.0659)*
GI	1278.510 (0.0040)***	750.0540 (0.0060)***	519.5590 (0.0833)*
R-squared	0.349247	0.972424	0.343276
Prob (F-statistic)	0.000000	0.000000	0.000000

Significant at 1% (***), 5% (**), 10% (*)

Source: author's computation using Eviews 8.0

Table 8.3 Hausman test

Correlated Random Effects – Hausman Test

Equation: United

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.220016	3	0.0106

Source: author's computation using Eviews 8.0

in the 10 case study countries, and this is consistent with theory, which praised the intrinsic role played by governance in boosting growth, because better governance and sound institutions designed to protect property rights, fight corrupt practices, and reduce uncertainty are accountable for creating a viable and favorable economic environment that can boost growth prospects.

Results for each of the four models are presented in the table above; all explanatory variables carry the expected signs and tend to be statistically significant in the panel GMM model (see column a). Column b in Table 8.4 contains the estimation results using the multiplicative interaction term between inequality and unemployment; this term yields a significant negative coefficient, implying that the combined effect of inequality and employment frustrates economic growth. Moreover, the multiplicative term representing the interaction of inequality and governance, which can be read from column c, exerts a large and statistically significant positive effect on economic growth that, furthermore, is strong enough to overcome the adverse impact of inequality, suggesting that the harmful effect of inequality on growth can be counteracted and substantially reduced by enhancing governance situation. It is worthwhile

Table 8.4 Regression results for 10 MENA countries

Dependent Variable: GDP per capita

	(a)	(b)	(c)	(d)
	Panel GMM	Panel GMM	Panel GMM	Panel OLS
Constant	9167.317 (0.0019)***	-569954.5 (0.0000)***	-465 72.67 (0.0000)***	-8776.050 (0.0002)***
INQ	-220.2813 (0.0000)***	-15208.76 (0.0000)***	-1499.613 (0.0000)***	-341.5863 (0.0000)***
EMP	70.17218 (0.0636)*	13346.15 (0.0000)***	121.3022 (0.0659)*	62.02219 (0.0250)**
GI	2167.964 (0.0001)***	3252.305 (0.0000)***	77025.39 (0.0000)***	
INQ*EMP		-352.7311 (0.0000)***		
INQ*GI			2115.063 (0.0000)***	
VA				687.8183 (0.1992)
PSAV				1272.342 (0.0069)***
GE				13 76.352 (0.0497)**
RQ				1227.157 (0.0096)***
RL				267.9153 (0.6076)
CC				1328.612 (0.0332)**
R ²	0.992867	0.774101	0.925456	0.746809
J-statistic [p-value] (Hansen test: Over- identification test for all instruments)	6.984073 [0.221827]	4.527308 [0.476238]	4.570561 [0.334263]	
Number of instruments	8	9	9	
Number of countries	10	10	10	
Number of observations	47	47	47	

Significant at 1% (***), 5% (**), 10% (*). P-values are in parentheses.

Source: author's computation using Eviews 8.0

to note that the Hansen J test of overidentifying restrictions confirms the validity of the instruments, because the related p-values are found to exceed 0.05 (see columns a, b, and c). Additionally, column d reports a fixed effect OLS regression that scrutinizes the impact of governance indicators on economic growth in the 10 selected MENA countries. The findings further illustrate that “political stability and absence of violence,” “government effectiveness,”

“regulatory quality,” and “control of corruption” have highly significant positive influence on growth rate, hence these governance indicators are the institutional factors that matter most in boosting the MENA countries’ long-term growth prospects.

5. Conclusion

This study examines the impact of inequality and the labor market on economic growth, highlighting the role of governance in 10 MENA countries over the period 1996–2013. The main findings indicate that inequality displays a highly significant negative impact on economic growth in all regressions. Moreover, employment rate exhibits a statistically significant positive effect on economic growth. On this basis, a comprehensive set of labor market reforms forms a mainstay for any reform project aimed at enhancing inclusive growth and job creation in the region. Likewise, the governance index contributes positively and significantly to economic growth in the selected countries, and this is consistent with theory, which praised the intrinsic role played by governance in boosting growth. To sum up, the enforcement of strategies aimed at reducing inequality and promoting good governance and employment is expected to act as a promising catalyst for MENA countries’ economic growth.

Based on these findings, it could be concluded that more investment in higher education and core infrastructure and improvements in labor market flexibility can boost labor productivity and narrow inequality. Governments in the MENA region are committed to ensuring balanced regional development for narrowing regional inequalities. Moreover, the adoption and implementation of national action plans on equality on a collaborative basis, as well as the enforcement of antidiscrimination laws, can reduce labor market discrimination. Additionally, the region’s governments must also improve public-sector efficiency by restructuring public service institutions, curbing corruption, and wisely allocating resources. Further, MENA countries urgently need to strengthen the rule of law by raising public awareness and building demand among citizens for better governance. Indeed, policymakers should ensure the effective implementation of sound governance policies and practices by using all available means and sensitizing all segments of society to the importance of cooperation, which helps build a better tomorrow.

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A progressive universal Islamic perspective on the free mobility of labor

Muhammad Iqbal Anjum

Come on, deny your Ego. Get united with everybody. So long as you remain in yourself, you are a particle. But if you get united with everybody, you are a mine, an ocean. Believe that all spirits are one! And all bodies are one! Just like almonds in quantity hundred thousands; but there is the same oil in all of them. There are many languages in the world, in meaning all are the same. If you break the cups, water will be unified and will flow together.

Rumi

If Islam can be shown to be capable of providing fruitful vision to illuminate the modern conscience, then all mankind; and not only Muslims, have a stake in the outcome.

Marshall Hodgson

I. Prologue

This paper portrays a uniquely progressive universal Islamic perspective on the free mobility of labor in light of Islamic teachings. It highlights a uniquely immense potential of institutionalizing the free mobility of mobility of labor at the global level within the framework of a universal Islamic Common Market envisioned to be established by Khilafaul Khulafa (a central Islamic government of all regional Islamic governments, proposed by Shah Waliullah) inside its territorial jurisdiction and (if strategically possible) outside its territorial jurisdiction, along with the supporting central institutions of the Islamic Monetary Authorities Network (IMAN) and the Islamic Treasury. Section 2 presents a unique Islamic view of humans as global/universal citizens. Section 3 highlights the nature of the Islamic Common Market as a progressive vehicle institution for ensuring the free universal mobility of labor, capital, goods, services, and technology. Section 4 presents an empirical insight into several contemporary Islamic countries' serious macroeconomic problems of unemployment, poverty, and low human development, which are partly due to the nonexistence of the Islamic Common Market (ICM), and an Islamic economic rationale for instituting the ICM. Section 5 identifies potential progressive macroeconomic effects of efficient free global labor migration in a framework of the ICM – including a significant increase in personal income, consumption, global employment, global trade, and investment, improved personal and functional income distribution, poverty alleviation, and a decline in inflation. Section 6 highlights the conclusions of the detailed discourse on the subject.

2. Islamic view of humans as global/universal citizens

Islam recognizes humans as global/universal citizens, who may be called “universizens.” As a result, Islam confers the right of free mobility of humans/labor (i.e. workers) in the global/universal framework. In light of the following *Ayah* of the Holy Qur’an, it becomes crystal clear that one of the key means made available by Allah (SWT) to believers in particular and humans in general for achieving their objective of acquiring abundant resources of sustenance is migration for the cause of Allah (SWT):

وَمَنْ يُهَاجِرْ فِي سَبِيلِ اللَّهِ يَجِدْ فِي الْأَرْضِ مَرَاغِمًا كَثِيرًا وَسَعَةً وَمَنْ يَخْرُجْ مِنْ بَيْتِهِ مُهَاجِرًا إِلَى اللَّهِ وَرَسُولِهِ ثُمَّ يُدْرِكُهُ الْمَوْتُ فَقَدْ وَقَعَ أَجْرُهُ عَلَى اللَّهِ وَكَانَ اللَّهُ غَفُورًا رَحِيمًا [100]

And whoever flies [i.e. migrates] in Allah’s way, he will find in the earth many a place of refuge and abundant resources, and whoever goes forth from his house flying to Allah and His Messenger, and then death overtakes him, his reward is indeed with Allah and Allah is Forgiving, Merciful.

(4 (*An-Nissaa*’), 100)

Against this background, Islam encourages workers’ free movement and migration from one territory to another territory in order to improve their living standards. This fact is also implied by the following *Ayah*¹¹⁸ of the Holy Qur’an:

هُوَ الَّذِي جَعَلَ لَكُمْ الْأَرْضَ ذَلُولًا فَامْشُوا فِي مَنَاكِبِهَا وَكُلُوا مِنْ رِزْقِهِ ۗ وَإِلَيْهِ الْأَشْهُورُ

It is He Who has made the earth manageable for you, so traverse ye through its tracts and enjoy of the Sustenance which He furnishes: but unto Him is the Resurrection.

(67 (*Al-Mulk*), 15)

The aforementioned fact is also supported by the Holy Sunnah (i.e. the practice of the Holy Prophet Muhammad (pbuh)). The Holy Prophet Muhammad (pbuh) persuaded people to migrate from lands characterized by scarce means of livelihood to other lands characterized by abundant means of livelihood. Similarly, his companions (Allah Pleased With Them) persuaded people to do the same. Consequently, the surplus population of *Hijaz* initially migrated to the fertile lands of Egypt, Iraq, Syria, etc., and later gradually migrated to Abyssinia, Algeria, Morocco, Spain, Sudan, Tunisia, etc.

Of course, both the aforementioned *Ayaat* (the plural of *Ayah*) and the Islamic historical facts imply the following Islamic point of view:

- Islam recommends the accomplishment of tasks of enrichment (spiritual ascent-cum-material/economic development) and empowerment of all humans in a universal global framework of the Islamic Common Market, which is envisioned to be established by *Khilafaul Khulafa* (*KK*, a central Islamic government of all regional Islamic governments, proposed by Shah Waliullah) inside its territorial jurisdiction and (if strategically possible) outside its territorial jurisdiction and supported by complementary central institutions of the Islamic Treasury and the Islamic Monetary Authorities Network (*IMAN*) (Anjum 2005).

- Islam rejects nationalistic geographical barriers, which effectively deprive the universals of their right to free mobility all over the globe and universe and hence negate their inherent human right of enrichment and empowerment.

Keeping in view the Islamic objective of realizing uniform enrichment and empowerment of at least all the constituents of the Muslim *Ummah*, who are spiritually bonded together by their common belief in the commandments of both Allah (SWT) and His final Holy Prophet Muhammad (pbuh) regarding comprehensive integration and firm unity among all Muslims, there is no rationale at all for the existing formal disintegration of the contemporary Islamic world into 59 Muslim nation-states. This point is self-evident from the following commandment of Allah (SWT):

وَأَعْتَصِمُوا بِحَبْلِ اللَّهِ جَمِيعًا وَلَا تَفَرَّقُوا ۚ وَاذْكُرُوا نِعْمَتَ اللَّهِ عَلَيْكُمْ إِذْ كُنْتُمْ أَعْدَاءً فَأَلَّفَ بَيْنَ قُلُوبِكُمْ فَأَصْبَحْتُمْ
بِرِعْمَتِهِ إِخْوَانًا وَكُنْتُمْ عَلَىٰ شَفَا حُفْرَةٍ مِّنَ النَّارِ فَأَنْقَذَكُم مِّنْهَا ۚ كَذَٰلِكَ يُبَيِّنُ اللَّهُ لَكُمْ آيَاتِهِ ۚ لَعَلَّكُمْ تَهْتَدُونَ

And hold fast, all together by the rope which Allah [stretches out for you], and be not divided among yourselves; and remember with gratitude Allah's favour on you; for ye were enemies and He joined your hearts in love so that by His Grace, ye became brethren; and ye were on the brink of the pit of fire, and He saved you from it. Thus doth Allah make His signs clear to you: that ye may be guided.

(3 (*Al-E-Imran*), 103)

This important point in the context of both the Islamic point of view of universal human brotherhood in general and the universal brotherhood of Muslims in particular is also reflected in the following statement of Muhammad Umer Chapra:¹¹⁹

The distinctions created by nationality, race, and color are artificial and have no place in a religion, which stands for human brotherhood. The *Qur'an* clearly states that people were created as one nation [*Ummah*] but became divided because of their differences (*al-Qur'an*, 10, 19).¹²⁰ Conflicts of interests, prejudices, exploitation and misuse of power have taken their toll in dividing mankind. However, the ultimate objective of Islam is to reunite all of them

(*al-Qur'an*, 11:118–119)¹²¹

Pramanik has also confirmed the imperative of the Islamic universalism in his following statement.¹²²

Universalism in Islam is manifest through the concept of *Ummah* representing the Islamic community all over the world. This goes beyond the boundary of a single nation, single culture, single tradition and single color. Thus, man who is supposed to represent God as His Vicegerent in this world is made responsible not only to another fellow-being, his own society, and state but also to the entire community of his faith regardless of any artificial boundary raised by geography, color of the skin, language, race, etc. It seems as if the entire community is bounded by a single thread of ethics – unity, faith, morality and discipline. In this context, the responsibility of the entire Muslim community toward a single *Ummah* is even much bigger. One Muslim community representing a Muslim state cannot just shake-off its responsibility to another under any circumstances. In other

words, this community of the unique faith in one God is asked to remain united like a rock to face any onslaught likely to come from the non-believers or the believers of distorted faith.

3. The Islamic Common Market as a progressive vehicle institution for ensuring the free universal mobility of labor

The Islamic Common Market (ICM) is a potential progressive vehicle institution for instating and promoting the free mobility of labor in an Islamic universal framework. The ICM refers to at least an Islamic *Ummah*/world-level comprehensive market characterized by the free international trade in goods and services, the free mobility of physical capital, labor, and entrepreneurs, and the free mobility of technology among the ICM countries/communities (ICMCs) for the economic development, human development, and empowerment of all the constituents of the Muslim *Ummah* in accordance with the teachings of Islam. This universal approach is based on the fact that it is an Islamic duty of the global Muslim community as a whole to extend a hand of help not only to economically depressed Muslims, Islamic communities, and Islamic countries but also to the deserving non-Muslim individuals, communities, and countries in a matchless Islamic universal framework.

Fortunately, there has been observed an ever-growing consensus on the issue of the ICM, which is evidenced by both the adoption of Resolution 33/8-E (IS) on ICM in the Eighth Session of the Islamic Summit Conference held in Tehran, Iran, on December 9–11, 1997, and the approval of Comprehensive Resolution 33/25-E on ICM in the Twenty-Fifth Session of the Organization of Islamic Conference (OIC)'s Islamic Conference of Foreign Ministers (Session for a Better Future for the People of the Islamic *Ummah*, held at Doha, Qatar, on March 15–17, 1998). This OIC-level consensus is a genuine reflection of the common aspirations of Muslim masses of all OIC member countries to have a universal ICM established. This fact is confirmed by the following pertinent comment on this paper (Savasan 2015):

It is a fact that Muslims around the world long for establishing an Islamic Common Market. Just to give an example, one of the pillars of the “just order” political promotion has been undertaken by the late Necmeddin Erbakan of Welfare Party was Islamic Common Market. We know that Muslim Brotherhood of Egypt or Islamic Party of Pakistan and many other official and unofficial movements possess strong desire toward this end.

These facts substantiate the ever-popular argument of both the contemporary Islamic economists and the global Muslim masses that the establishment of the ICM is the only strategic-economic key to the comprehensive economic development of Muslim *Ummah* along Islamic lines. The operationalization of this Islamic point of view of unrestricted free mobility of humans and their nonhuman resources will ensure the migration of, in particular, low-wage workers and the poor from the low-wage, labor-abundant, or economically backward regions to the high-wage, labor-scarce, or relatively more developed regions. Because free universal mobility of labor is a fundamental human right, the aforementioned consensus on ICM needs to be translated into reality without any delay in the name of gradualism. In particular, the tendencies of the interregional migration of labor/entrepreneurs and flows of investment/capital in the framework of the ICM are expected to generate the following desirable beneficial economic outcomes:

- i) A prospective improvement in wages and incomes of migrant workers.
- ii) A prospective rise in levels of self-employment (for example, it has been observed that numerous Muslim immigrants and their dependent family members have become self-employed in Brazil and South Africa as highly successful entrepreneurs and businessmen) and the employment of all employable humans in the jurisdiction of the ICM (temporarily unemployed new immigrants are expected to become employed or self-employed soon after their assimilation in the target labor market and the acquisition of either the requisite skills demanded by the prospective employers or the requisite entrepreneurial skills imparted by training programs sponsored by the Islamic Treasury of KK).
- iii) A prospective increase in workers' remittances to areas of origins of labor migration.
- iv) A prospective significant reduction in the incidence of poverty in the jurisdiction of the ICM in particular and in the world as whole.
- v) The actual realization of a prospective huge immigration surplus (realized after taking into account the outflows of incomes of immigrant workers in the form of workers remittances) in the economies of destination regions of labor migration as a result of growth in the output of the destination regions of labor migration and the prospective equitable redistribution of huge immigration surplus among all deserving stakeholders of the ICM through taxes and transfers/subsidies (Borjas 2005).
- vi) The actual realization of a prospective huge foreign investment-based surplus – a surplus contributed to by the inflow of foreign investment/capital into a capital-deficient region – in the economies of places that are the destinations for flows of foreign investment/capital. This will come as a result of growth in the output of the destination countries of foreign investment and the prospective equitable redistribution of a huge foreign investment-based surplus among all deserving stakeholders of the ICM through taxes and transfers/subsidies.
- vii) A more equitable personal, as well as functional, distribution of income in both the regional economies of KK and the world as a whole.
- viii) A significantly improved and balanced distribution of population and manpower in the jurisdictions of the ICM and the world as a whole.
- ix) A spectacular, self-sustaining increase in aggregate demand, including the sustained higher consumption levels of the unemployed and poor, due to the permanent developmental roles of multiple built-in stabilizers of the Islamic economy available in the form of *Zakat*, *Ushr*, *Awqaf*, *Sadaqat*, *Qardh-i-Hasan*, or gifts, which have great potential for generating colossal cumulative positive effect on aggregate demand and aggregate output in the Islamic economy at all times.
- x) A highly improved standard of living of the populations of the KK and the world as a whole.

Amid the aforementioned milieu of several positive outcomes, the realization of potential economies of large-scale production are expected to ensure the prices and quantities of all goods, services, and factors of production will ideally be equilibrated within the dynamic framework of the universal ICM in such a way that inflation will be curbed, consumers' purchasing power and consumption will increase, investment will increase, and aggregate demand/aggregate output of goods and services and the volume of trade will increase tremendously, which will

culminate in a massive self-sustaining growth in GDP within KK. All of these positive developments are expected to be realized in the ICM, which will be characterized by perfectly cooperative competition, which is based on both the concept of the universal Islamic brotherhood and the policy of free mobility of all goods/all factors of production/all services. These ICM-augmenting processes of economic integration can be effectively promoted by KK's policies of proactively enhancing Muslims' levels of Holy Qur'an- and Sunnah-based Islamic awakening/awareness/consciousness/knowledge to that particular ideal level, which is indeed actually achieved by millions of ethnically diverse Muslim pilgrims (*Hajjis*) belonging to several different Islamic sects/ethnicities/regions and which ensures their ideally peaceful coexistence and cohesion during the entire process of *Hajj*.

Therefore, the likelihood of any potential ethnic and sectarian tensions/conflicts between migrant workers and native workers in the framework of the ICM can be precluded in the altruistic framework of universal *Ansar-Muhajir Mawakhat* (that is, universal Islamic brotherhood between immigrants and their generously helpful local/native brothers) just by replicating the truly Islamic education, imparting the knowledge of the Holy Qur'an- and Holy Sunnah-based *Hajj* model of peaceful human coexistence and cohesion, which is currently perfectly implemented by millions of ethnically diverse *Hajjis* belonging to several different Islamic sects, regions, ethnicities, and countries, in the framework of the universal ICM envisioned to be established by KK. As far as the possibility of immigrants (as recipients of welfare benefits) being a burden on native taxpayers' money and a source of tension with native residents is concerned, it is pertinent to note in particular that Muslim immigrant workers are generally obligated as Muslims to become dynamic, enterprising, successful, economically independent, and self-sufficient *Sahib-i-Nisab* workers in the destination regions of their immigration and they will not at all be the recipients of any welfare payments (*Zakat* or *Ushr*, for example) from the Islamic Treasury.

However, even if some Muslim immigrants initially temporarily fail to become employed, self-employed, economically self-reliant, and self-sufficient *Sahib-i-Nisab* because of an economic recession or other factors beyond their control, they will be rightfully entitled as Muslims to receive their own due share in the form of *Zakat*, *Ushr*, or Sadaqaa from Baitul Mal of the Islamic Treasury and, therefore, they will be neither a burden on native taxpayers' money nor a source of economic tension between natives and immigrants. Moreover, such non-*Sahib-i-Nisab* immigrants will be assisted by the numerous Islamic institutions such as KK, Baitul Mal of the Islamic Treasury, Islamic banks, and Islamic microfinance institutions to experience a progressive transition from their status of non-*Sahib-i-Nisab* immigrants to their enviable, cherished status of successful *Sahib-i-Nisab* immigrants.

Moreover, a possible problem of the free mobility of labor in the form of a regional brain drain occurring within the framework of the ICM can be effectively solved by implementing KK's proactive Islamic educational policy of ensuring the attainment of higher education and the acquisition of state-of-the-art productive skills by all inhabitants of KK. In this context, the possibilities of reversing the brain drain with substantial return migration resulting from natural wage adjustments in regional labor markets also merit due attention. Moreover, the complementary Islamic monetary policies of IMAN and the Islamic fiscal policies of the Islamic Treasury in KK are envisioned to proactively promote the progressive humanitarian agenda of the universal ICM.

For illustrating the key developmental role of a standard Islamic enlightenment/education/consciousness/awareness/awakening of Muslim masses (that is, *Hajj*-level Qur'an- and

Sunnah-based Islamic awareness/knowledge/scholarship/consciousness/human capital) in ensuring both the *Hajj*-like peaceful and cooperative coexistence of Muslims/humans of all sects/ethnicities in the progressive framework of KK/ICM, which is followed by the perfectly free mobility of labor/capital/goods/services/technology and perfect human development, the following four perfectly positively correlated indices are introduced.

I_E is the index of Islamic enlightenment/Qur'an- and Sunnah-based Islamic awareness/knowledge/scholarship/consciousness/human capital.

H is the index of universal social harmony premised in *Hajj*-like peaceful sectarian/ethnic coexistence of diverse human groups in ICM.

Σ is the index of free universal mobility of labor/goods/services/capital/technology in ICM.

HDI is the human development index.

Values of I_E , H , Σ and HDI range from 0 to +1, as shown in Figure 9.1 below, which portrays an ideal Islamic scenario of perfect positive correlation among the aforementioned four indices – correlation coefficients between the above indices are equal to +1.

An extreme case would be where $I_E = 0$, reflecting a complete lack of Islamic education/awakening/awareness/consciousness, $H = 0$, reflecting extreme social disunity/anarchy (*Fasaad*)/conflict/absence of social harmony/peaceful coexistence of diverse human groups, $\Sigma = 0$, reflecting complete autarky and the absence of free mobility of labor/capital/goods/services/technology (the absence of economic integration in the framework of the ICM), and

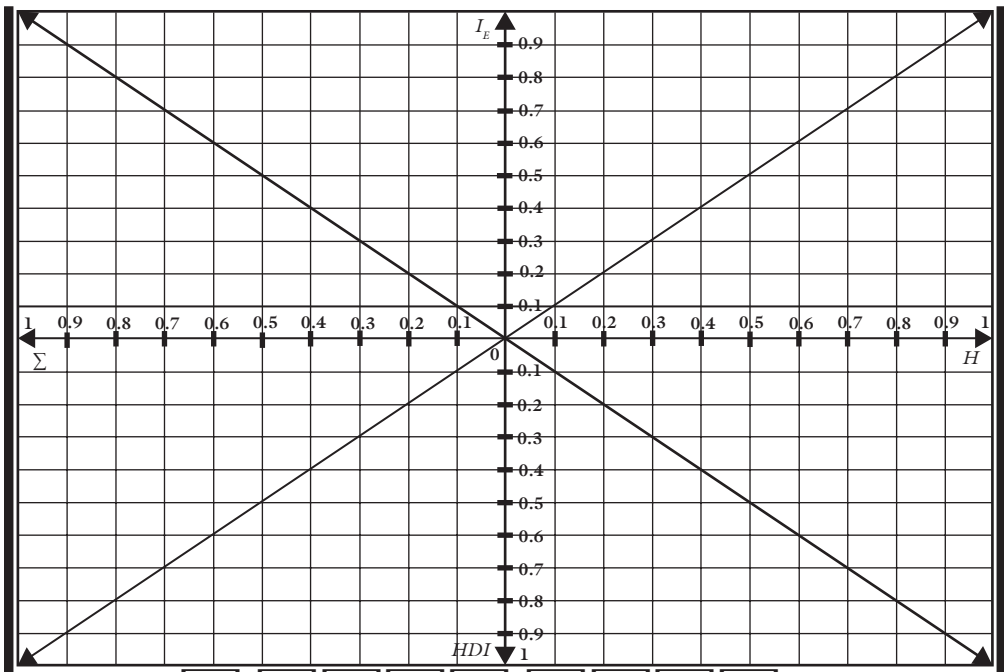


Figure 9.1 Positive correlations between indices of Islamic enlightenment (I_E), universal social harmony (H), the free universal mobility of labor/goods/services/capital/technology (Σ), and human development

$HDI = 0$, reflecting a state of complete underdevelopment of humans. However, increases in value of I_E are assumed to be accompanied by matching increases in values of H , Σ , and HDI . In another extreme case, $I_E = 1$, reflecting *Hajj*-level Islamic education/awakening/awareness/consciousness, $H = 1$, reflecting perfect social unity/harmony/absence of social conflict/perfectly peaceful coexistence of diverse human groups, $\Sigma = 1$, reflecting perfect economic integration and perfectly free mobility of labor/capital/goods/services/technology (the perfect functioning of the ICM), and $HDI = 1$, reflecting the achievement of an Islamic standard of perfect human development in the Islamic institutional framework of KK and the ICM.

4. High unemployment/poverty and low/medium human development in many countries of the Islamic world: an Islamic economic rationale for the ICM

In light of the aforementioned enviable and matchless standards of Islamic universality, it is self-evident that the current 59 Muslim nation-states are characterized with the Islamically undesirable artificial barriers imposed on the international mobility of millions of Muslim workers. Therefore, instead of having a disintegrated Islamic world, there is a pressing current need for comprehensively integrating, at the least, all the constituents of the contemporary Islamic world in the form of one great Islamic Caliphate from the point of view of accelerating the process of achieving the Islamic ideals of universal enrichment, development, and empowerment of humanity as a whole. This Islamic imperative highlights the prospective critical role of the Islamic political economy in the context of developing as well as establishing the requisite Islamic politico-economic institutional mechanism along with its efficient operational scheme and the corresponding incentive system. These important constituents of the Islamic political economy are potentially capable of ensuring the establishment, growth, and smooth functioning of the ICM.

At present, an Islamic economic rationale for the establishment of the ICM is provided by the persisting extremely poor development record of a majority of the disintegrated Islamic world's 59 national economies, spanning over a very long period of time despite the contemporary Islamic world as a whole possessing all the material prerequisites of economic development (for example, immensely large diverse manpower, land area, reservoirs of energy (oil, gas, coal), minerals, water and oceanic wealth, and petrodollars). This paradox portrays the contemporary Islamic world as uniquely resourceful, the largest territory on the earth as a whole, while mostly inhabited by a poor population.

This paradox is empirically confirmed by 2006 data that the average OIC group countries' real GDP per capita (US\$2,695) was lower than that of the Organization for Economic Cooperation and Development (OECD) (US\$23,068) and the European Union 15 (EU15) (US\$25,961).¹²³ This tension is also confirmed by the empirical evidence that, in spite of the fact that Muslims constituted 19.2 percent of the world's population in 2008 and that the population of the Islamic world was at least 1,395.5 million people¹²⁴ in 2006, the total real GDP of all OIC member countries, which was at least \$1,987 billion in 2006, amounted to merely 5.26 percent of the total real GDP of the world (\$37,866 billion) in 2006.¹²⁵ Moreover, this contradiction is confirmed by the 2006 data¹²⁶ that the average output of households in the member countries of the OECD and the EU15 is 10 times greater than the average output of households in OIC member countries.

The free mobility of labor in the framework of the ICM is also warranted by empirical evidence. The median and mean of the human development index (HDI) data set, available for

57 Muslim countries, were recently merely 0.653 and 0.613, respectively, which are consistent with high or very high human development levels in countries in the year 2013.¹²⁷ Here it is pertinent to note that 13 Muslim countries were classified as medium human development countries and at least 23 Muslim countries were low human development countries in the year 2013.¹²⁸ In short, most (36) Muslim countries fall in the categories of low/medium human development.

A related aspect of the aforementioned contradiction associated with the structure of the population of the OIC member countries is the fact that the intra-OIC distributions of population are not uniform and balanced. On the one hand, the OIC has some of the world's most populous countries, including Bangladesh, Indonesia, Nigeria, and Pakistan, each of which has more than 100 million people.¹²⁹ On the other hand, the OIC has several scarcely populated countries (the Maldives, Brunei, Suriname, Comoros, Bahrain, Guyana, Djibouti, and Qatar), each having fewer than one million people.¹³⁰

True, this unbalanced distribution of population among Muslim countries is one of the major factors to cause the contemporary Muslim world's existing terrible unemployment scenario, which is reflected by the empirical facts that almost 18 contemporary Muslim countries have unemployment rates in excess of 10.0 percent and that almost 29 Muslim countries have unemployment rates in excess of 8.0%.¹³¹ The median and mean of the unemployment rate data set available for 57 Muslim countries were 8.1 percent and 9.1 percent, respectively, in 2012.¹³² This serious unemployment problem in the contemporary Muslim world, which results from the existing undesirable pattern of an unbalanced distribution of population and labor force among the contemporary 59 Muslim countries, presents a crystal-clear economic rationale for the establishment of the ICM.

The establishment of the ICM is also particularly warranted by the urgent imperative of getting rid of the extremely alarming, deplorable poverty situation in at least 12 Muslim countries. Countries with a population living below the international poverty line of \$2 a day,¹³³ were (using the most recent data available) Bangladesh (76.5 percent of the population in 2010), Benin (74.3 percent in 2013), Chad (60.5 percent in 2011), Guinea (72.7 percent in 2013), Indonesia (43.3 percent in 2011), Mali (78.8 percent in 2010), Niger (76.1 percent in 2011), Nigeria (82.2 percent in 2010), Pakistan (50.7 percent in 2011), Senegal (60.3 percent in 2011), Sierra Leone (82.5 percent in 2011), and Uganda (62.9 percent in 2013).¹³⁴ For 18 Muslim countries, recent median and mean figures were 60.4 percent and 48.4 percent respectively during 2010–2013.¹³⁵ It is an unfortunate fact that, in spite of the implementation of conventional national policies aimed at poverty alleviation for a painfully long period of several decades in the aforementioned Muslim countries, the increasing¹³⁶ or at least very high persisting¹³⁷ rates of poverty have been jeopardizing the already vulnerable development-cum-human development processes of several Muslim countries.

The deep-rooted nature of Western national-based capitalistic causes of poverty (for example, the exploitative, capitalistic interest-based system of money lending and the sole strategic focus on the inherently inequitable growth of per capita output and income) and the resulting longevity of the problem of poverty in populous Muslim countries (for example, chronically low-income countries such as Bangladesh and Pakistan) clearly imply that the unemployment-based problems of poverty and human underdevelopment, especially in highly populous Muslim countries, can never be individually solved within the narrow national jurisdictions of the Muslim countries.

In Islamic history, the painful problem of abject poverty and the crystallization of the pan-Islamic scheme of poverty alleviation date back to the earliest phase of history of Islamic society

in the pre-*Hijrah* stage (that is, before the migration of the Holy Prophet Muhammad (pbuh) from Mecca to Medina) at Mecca and in the initial post-*Hijrah* stage at Medina, when the Holy Prophet Muhammad (pbuh), his family members, and his migrant companions experienced destitution, starvation, malnutrition, physical weakness, disease, lack of proper clothing, and inadequate opportunities of business and employment due to the ever-increasing flow of migrants (originating from Mecca) to Medina, which had a small local Muslim population, a limited economy, and inadequate material resources.

The aforementioned hardships and physical afflictions were courageously faced by the Holy Prophet Muhammad (pbuh) and his companions with exemplary fortitude and patience.¹³⁸ From this perspective, the Islamic goal of the eradication of destitution and poverty is implied by the Holy Prophet Muhammad (pbuh)'s intense dislike for destitution and poverty, which is reflected in this saying (Khan 1989):

Abu Sa'id Khudri reported Allah's Messenger (may peace be upon him) as praying: "Allah, I seek Thy refuge from infidelity and destitution." There upon a person asked: "Are both [the things] equal?" The Prophet (may peace be upon him) said: "Yes."

Consequently, the then existing seriously painful problem of poverty was alleviated and overcome by the Holy Prophet Muhammad (pbuh) through the establishment of the historically unprecedented ideal of Islamic brotherhood between migrant Muslims (called *Muhajirin*) and Medina's local Muslims (called *Ansar*), who handed over half of their property and belongings, houses, groves, and corn fields to their migrant brothers. *Muhajirin*, instead of becoming a burden on their benefactors in response to the aforementioned generosity of *Ansar*, requested *Ansar* to show them the way leading to agricultural lands and markets with a view to economically maintaining themselves by farming, working, and trading; in this way they upheld their self-respect.

Ahmad has documented the fact that the Holy Prophet Muhammad (pbuh) established a market for Muslims in Medina, and said (Ahmad 1986), "Haza suqu kum la kharaja alaykum fi hi" ("This is your market. There is no tax imposed on you in this market"). This fact is also documented by Ghazi in his book, entitled *Muhadiraat-e-Seeerat* and written in Urdu (Ghazi 2008). Ahmad has also documented (Ahmad 1986) that the Holy Prophet Muhammad (pbuh) prayed for the people of Medina, saying, "Allahumma Barik Li Ahlil Madinah Fi Suqi Him" ("O Allah, bestow Barakah for the people of Madinah in their market").

The aforementioned numerous aspects of the pan-Islamic scheme of poverty imply that the scheme applies several minor and major measures of poverty alleviation and that their cumulative poverty-alleviating impact may be substantial.

Here it is important to note that the prospective key institution for alleviating poverty in the contemporary Islamic world is the ICM, which is capable of triggering the free mobility of the poor and unemployed all over the largest ICM of the world and thereby solving the twin problems of unemployment and poverty within the domain of the KK. Because the Islamic *Ummah*-level society is extremely large, the target ICM is expected to be the world's largest common market, which can effectively promote free and efficient migration, particularly of poor and unemployed workers, on a massive scale, thereby enabling them not only to get rid of unemployment and poverty but also to become highly affluent.

The ICM has the potential to become the largest diversified market in the contemporary world. It is expected to be capable of providing adequate opportunities for its constituents to fully develop and exploit their Islamic cultural links in order to achieve socioeconomic

solidarity, as well as generate a massive aggregate demand for their own products. The resulting immense aggregate demand can in turn trigger the Islamic world's producers to realize the economies of large-scale production as well as match their massive production with the massive aggregate demand. In this way, the contemporary Islamic world is expected to achieve its strategic goal of self-sufficiency, especially in the form of reduction in Muslim countries' economic dependence on non-Islamic countries for financial resources, imports, and exports from the point of view of achieving economies of scale.

Humans are indeed inherently global citizens, who have a natural urge for migration and remigration from the point of view of pursuing and realizing their genuine personal rights of their academic, social, economic, and political empowerment and development in a global framework. This universal truth is partially evidenced by the following empirical facts of substantial international human migration, even in the presence of numerous overwhelming national barriers in the way of free international human migration.

The International Organization for Migration's (IOM) report, entitled *World Migration 2005* (IOM 2006), concluded that population mobility increased markedly during the twentieth century and that most of this increase took place in the last decade of the twentieth century. For instance, the stock of international migrants dramatically increased from 82 million in 1970 to 175 million in 2000. Here it is important to note that the growth rate of the stock of international migrants was more rapid in developed countries than in developing countries.

The aforementioned empirical insights are also supported by the realistic acknowledgment by the World Bank in its *World Development Report 2008* of migration (both from one country to another country and within a country) as a pathway for poverty alleviation.

According to the *World Migration 2005* report (IOM 2006), migration has also been flagged as a priority issue of the United Nations (UN) through its Secretary-General's 2004 report, entitled *Strengthening of the United Nations: An Agenda for Further Change*, and through the establishment of the UN Global Commission on International Migration (GCIM) for ensuring convergence of the disparate strands of the international debate on migration and for providing coherent policy guidance.

Of course, the aforementioned large population of the contemporary Islamic world deserves to be properly educated, equipped with modern scientific and technological knowledge-based skills and employed fully for mobilizing the entire Islamic world's manpower as the vehicle of economic development within the framework of the ICM.

However, as has already been stated and explained, the most radical and massive contribution toward poverty alleviation is envisaged by the pan-Islamic scheme of poverty alleviation, which is to be realized through the perfectly free mobility (i.e. migration) of labor in the universal framework of the ICM, which is truly regarded as the key for unlocking¹³⁹ the door to the paradise of human bliss and development through the advent of a global phenomenon of efficient labor migration on a massive scale.

5. Macroeconomic effects of the free mobility of labor in the framework of the ICM

Against the background of the empirical fact¹⁴⁰ that migrants often tend to be among the more innovative and better educated members of any population, labor mobility at the local/regional/international levels has generally been a poverty-alleviating factor because migrants act as agents of poverty alleviation by accomplishing efficient labor migration. This fact is shown by J.K. Galbrith (IOM 2006) in his following statement:

Migration is the oldest action against poverty. It is good for the country to which they go; it helps to break the equilibrium of poverty in the country from which they come.

The inevitability of the global human/labor mobility is implied by the fact that, even in a scenario of limited labor mobility, the number of migrants worldwide has reached between 185 million and 192 million (IOM 2006).

Against the background of both the persisting infinite possibilities of wage differentials across cities/regions/countries all over the globe and the aforementioned empirical facts of actual occurrence of efficient labor migration, the skilled poor/unemployed individuals and their families will be particularly successful in ultimately accomplishing efficient migration. In a scenario of persisting wage differentials among the countries in the framework of the ICM, the poor and unemployed and their families will accomplish efficient migration for the wage outcomes such that “wage in destination country R” > “wage in home country W.” This scenario is consistent with John Hicks’s point of view that wage differences are the main cause of migration. It also implies an increase in the labor productivity/income/standard of living of migrant workers in accordance with the efficiency wage hypothesis.

The above efficient migration of poor people in the Islamic world will culminate not only in an increase in people’s employment, output, income, personal consumption, trade, savings, investment, and aggregate demand/output in the Islamic world and the whole world and in improved personal and functional income distribution but also in a decline in inflation, unemployment, poverty, and level of backwardness and underdevelopment of both the Muslim *Ummah* in particular and humanity in general. In this way, the ICM is a universal vehicle for the politico-economic, social, and strategic empowerment of all humans.

The operationalization of this Islamic point of view of unrestricted free mobility of human and nonhuman resources is expected in particular to ensure the migration of low-wage workers and the poor from low-wage, labor-abundant, or economically backward regions to high-wage, labor-scarce, or relatively more developed regions. Such tendencies of interregional labor migration will generate a significant reduction in the incidence of poverty as well as inflation, more equitable personal and functional distribution of income all over the globe, a significantly improved and balanced distribution of population and manpower all over the globe, and a highly improved standard of living of people all over the globe.

Poverty alleviation through the establishment of the ICM is also justified because the free mobility of labor around the globe is a fundamental human right for ensuring the satisfaction of basic human needs; contemporary capitalistic nationalism does not address this human concern for the purpose of continuing capitalistic hegemonic designs based on the policy of “dividing and ruling” humanity. The goal of the ICM has already been upheld by the OIC.

6. Epilogue

The universal free mobility of all humans, being an investment in human capital, is key to solving the problems of widespread unemployment, poverty, underdevelopment, and disempowerment of all humans around the world. Against the background of the aforementioned empirical facts and theoretical insights, it is a foregone logical conclusion that, while migration has already become a global phenomenon, the full intensity of the waves of the flood of free global human mobility is expected to be realized in the arena of the actually established ICM, which seems to be the ultimate destiny of mankind. Therefore, there is limitless practical scope for implementing the progressive agenda of the ICM.

Against this background, the consensus of at least the OIC member countries on an Islamic ideal of establishing the ICM is a ray of hope for the Muslim *Ummah* in particular and for humanity in general. Therefore, the ICM has the potential to become the precursor for the free migration of all humans on the global level. Therefore, it is in the best interest of all Muslim countries to understand and implement the truthful imperative of establishing the ICM in its letter and spirit.

The ideal landscape of the most of the prospective ICM member countries, primarily due to their geographic proximity on the world scene, reflects ample prospects of successfully establishing the world's greatest¹⁴¹ self-sufficient ICM. This geographic proximity is one of the greatest blessings of Allah (SWT) on the Muslim *Ummah*.

Notes

- 118 The term *Ayah* refers to a saying of Allah (SWT) stated in the Holy Qur'an. An *Ayah* is quoted along with the Qur'anic reference in the following form: (*Surah* No. referring to Chapter No., *Ayah* No.).
- 119 Chapra 2001, 25.
- 120 وَمَا كَانَ النَّاسُ إِلَّا أُمَّةً وَاحِدَةً فَاخْتَلَفُوا وَلَوْلَا كَلِمَةٌ سَبَقَتْ مِنْ رَبِّكَ لَقُضِيَ بَيْنَهُمْ فِيمَا فِيهِ يَخْتَلِفُونَ
"Mankind was but one nation, but differed (later). Had it not been for a word that went forth before from thy Lord, their differences would have been settled between them." (10 (*Yunus*), 19)
- 121 وَلَوْ شَاءَ رَبُّكَ لَجَعَلَ النَّاسَ أُمَّةً وَاحِدَةً وَلَا يَزَالُونَ مُخْتَلِفِينَ
"If thy Lord had so willed, He could have made mankind one People: but they will not cease to dispute." (11 (*Hud*), 118)
- إِلَّا مَنْ رَجِمَ رَبُّكَ وَلِذَلِكَ خَلَقَهُمْ وَتَمَّتْ كَلِمَةُ رَبِّكَ لِأَمْلَأَنَّ جَهَنَّمَ مِنَ الْجِنَّةِ وَالنَّاسِ أَجْمَعِينَ
"Except those on whom He hath bestowed His Mercy: and for this did He create them: and the Word of thy Lord shall be fulfilled: "I will fill Hell with jinns and men all together." (11 (*Hud*), 119)
- 122 Pramanik 1997, 14–15.
- 123 SESRIC 2008, February.
- 124 SESRIC 2008a.
- 125 SESRIC 2008, February.
- 126 SESRIC 2008, February.
- 127 UNDP n.d.
- 128 UNDP n.d.
- 129 SESRIC 2007a.
- 130 SESRIC 2007a.
- 131 SESRIC 2008b.
- 132 SESRIC 2008b.
- 133 World Bank 2015.
- 134 World Bank 2015.
- 135 World Bank 2015.
- 136 In this context, Pakistan is the most notable example.
- 137 For example, the percentage of Bangladesh's population below the national poverty line has been dramatically high (51 percent in 1995–1996 and 49.8 percent in 2000), along with a dramatic increase in its percentage of urban population below the national poverty line, from 29.4 percent in 1995–1996 to 36.6 percent in 2000 as a result of its continuously worsening income distribution, reflected by the increase in Bangladesh's Gini coefficient from 0.31 in 1991–1992 to almost 0.36 in 1995–1996, and then to almost 0.41 in 2002.
- 138 A glimpse of this scenario has been depicted by a companion (Hazrat Abu Talha) of the Holy Prophet Muhammad (pbuh), who visited the Holy Prophet Muhammad (pbuh), along with his other companions, to realize some solace in their beyond-endurance situation of starvation and showed a stone tied to the stomach of every one of them. In response to their complaint,

- Hazrat Abu Talha reported that the Holy Prophet Muhammad (pbuh) coolly raised his shirt and showed that there were two stones tied to his stomach (Siddiqi 1979, 107).
- 139 That is, solving the problems of abject poverty and unemployment in countries caught in a permanent low-income poverty trap.
- 140 International Organization for Migration (IOM) 2005.
- 141 The European Common Market (ECM), which is generally known as the European Community and which has recently culminated in the contemporary European Union, is significantly smaller in size than the prospective ICM. Consequently, the ECM is not at all economically self-sufficient in contrast to the prospective ICM, which is potentially self-sufficient in almost all types of economic resources.

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A comparative study of views and the role of labor in Marxian, mainstream, and Islamic economics

Salman Ahmed Shaikh

I. Introduction

Labor is an important factor of production in any production process. In classical literature, labor theory of value appears as a fundamental determinant of commodity price movements. In the middle of the Industrial Revolution, Marx observed the exploitation of labor by capitalists. In his study of the production process, Marx argued that all value is created in the production process and by the labor effort while the capitalist extracts the surplus value in the exchange process. As a result, he advocated the denial of private property rights so that labor could not be exploited by the capitalists.

Nevertheless, due to coordination and incentive problems, the radical policy suggested by Marx could not be fully implemented and wherever it was implemented to a smaller or larger extent it was eventually abandoned. The abolition of markets is no longer on the agenda in developed and developing countries (Arnold 1987). The alternative mainstream neoclassical perspective rests on the market mechanism, in which economic agents make self-centric economic choices based on marginal valuations of costs and benefits. Hence, the mainstream postclassical economics literature since the second half of the twentieth century has focused more on economic choices by households to decide how much time should be allocated between leisure and labor supply. In addition, the mainstream literature also focuses on labor market dynamics, agency conflicts, insider–outsider relationships, industrial organization, and other frictions that hinder market clearing in the labor market and results in persistent unemployment.

Against this backdrop, from an Islamic perspective, we do not fundamentally need to try to suggest a new positivist explanation of labor as a factor and explain labor market dynamics. However, it is vital to find the right balance between the two standard economic perspectives and to suggest ways to overcome coordination and incentive failure (as in Marxism) and to avoid labor exploitation and systemic inequalities in income distribution between capitalists and labor (as in capitalist economics).

In this paper, we are interested in discussing the policy questions of how to achieve economic growth that is inclusive and that creates jobs. Indeed, jobless growth or growth that destroys jobs for masses and creates fewer new ones for a privileged group of skillful people is not desirable. Such an economic growth can result in exacerbating growing income inequalities. In fact, income inequality has increased in the developed part of the world in the last half-century or so (Piketty 2014), despite the decline in productivity since the 1980s. In this study we are also interested in discussing how the frictions caused by the extractive institutions can be removed and hence how can we achieve the circulation of capital and promote

an entrepreneurial culture. We want to analyze and suggest how labor exploitation can be removed without undermining innovation, private property rights, and economic freedom. We explain how Islamic economics, with its distinct worldview, work ethics, and set of economic institutions, solves these problems amicably in comparison to Marxian and mainstream economics.

We proceed as follows. In section 2, we critically evaluate the Marxian view of labor. In section 3, we discuss how labor is theorized in neoclassical economics. We note that the provision of private property rights is crucial and fundamental in fostering innovation and capital formation. However, the resulting systemic inequalities can be checked by removing extractive institutions. In section 4, we compare the view and role of labor in Marxian, neoclassical, and Islamic economics frameworks. In section 5, we discuss how an Islamic economy achieves egalitarian income distribution between capitalists and labor. Finally, in section 6, we discuss labor supply choices in an Islamic economy vis-à-vis a conventional economy.

2. A critique of the Marxian view of labor

In Marxian economics, it is argued that labor creates surplus value in the production process that capitalists extract in the exchange process. Marx said that the capitalist purchases the use value of labor (service) and pays labor something equivalent to the exchange value of labor time (Weeks 1990). However, when the capitalist sells products created by “labor power,” these products command more exchange value and this excess is known as surplus value (Shaikh 1982). The surplus accumulates and this is exploitation of labor by the capitalists (Hasan 2007).

However, upon closer inquiry, it is clear that the payoffs to labor and capitalists are different in the production process. Labor gets a fixed wage, whereas the capitalists earn ad hoc profits from the sale of a good or service in the exchange process. Capitalists provide certain important functions to which Marx seemed to give little importance. Capitalists provide employment to labor. Labor gets a fixed wage irrespective of profit to the capitalists, which could be negative (Eubank 2011). It was rare for losses to occur at the height of the Industrial Revolution, but that does not suggest that profits are the necessary outcome of every production process for the capitalists. Capitalists compete among themselves and their competition in theory may in the long run bring prices down to the level of marginal cost in competitive markets. If there is allocative efficiency in the market, then the producer price is only as much as the cost of production, which only includes the normal profit for the entrepreneur.

Furthermore, in the countries where labor was exploited during the Industrial Revolution, per capita incomes have increased manifold. We know by experience and data that most new startup firms fail and not all capitalists are always able to reap value greater than labor from the production process. Hence, capitalists take the risk of uncertain profits, prices, and sales fluctuations and they must have an incentive to take the risk. The incentive is in the ability to make profit from the sale of products. But profits can be negative as well. As long as they are earning profits from the sale of goods (with intrinsic value) sold to willing buyers at competitively set market prices, Islam does not regard it as exploitation.

Further, social relations are no longer mutually exclusive. Employee stock ownership plans, general and limited partnerships, and joint stock companies have modified actor relations. In a joint stock company, there is no one big capitalist. There are small shareholders in large numbers who are workers in other organizations. Nowadays, scientists, programmers, and artists can have patents.

Cohen (1979) argues that the labor theory of value is not a suitable basis for the charge of exploitation laid against capitalism by Marxists. It is correct to argue that the actual labor time devoted to production may vary from one laborer to the other and across firms. The effectiveness of each factor in the production process in turn depends on availability, quality, and interaction with other factors in the production process. Marx coined the phrase “socially necessary labor time” to provide a benchmark for measuring surplus value and analyzing exploitation (Folbre 1982). However, it is next to impossible to arrive at a standard and consensus-based measure of “socially necessary labor time” given the intricacies of production processes and heterogeneous labor working in conjunction with a variety of other input factors. As per Marx, labor has only one thing which he can use to earn income: labor power. However, why does the laborer not become a capitalist? It can be said that the lack of seed capital acts as a constraint. But, in most developed countries, there are fewer constraints on borrowing. Then why do the majority of people not become entrepreneurs by choice? If the working class is always greater in number than the capitalists, then why do most democracies not overthrow the market system? The fact of the matter is that markets create incentives and encourage competition, and that allows capital accumulation, technological change, economic growth, and the transaction of a wide range of goods as well as services.

Bowles and Gintis (1975) argue that neoclassical economists only treat labor as a commodity and that labor markets are analyzed just like markets for other commodities. It is true that this mechanical outlook on labor and human beings can and has resulted in exploitation and neglect of the negative effects of extractive political, economic, and financial institutions. However, the recent literature generates labor supply from the consumption/leisure utility-maximizing framework where individuals themselves decide about how to allocate time endowment into leisure and labor supply in a self-centric utility-maximization framework. A person can decide to supply less labor after a wage rise if the income effect dominates the substitution effect. Hence, the labor supply decision is taken to be independent in modern micro-founded mainstream macroeconomics.

According to the Islamic perspective, there is no harm if people specialize and engage in the voluntary trade of goods in a legal and ethical way. Islam does not recommend an arbitrary equal distribution of income for all people with diverse work efforts and skills. The promise in communism of equal wages and standards of living is very attractive at face value, especially to the masses, who generally do not have highly employable and demanded skills, access to quality education, and opportunistic circumstances. The argument that each person as a human being should have equal rights and an equal standard of living seems convincing.

However, it is a fact that people have different tolerances for risk, different innate abilities, different attitudes toward progression in life and career, and different levels of ambitions; as a result, they exert different levels of effort in acquiring educations and skillsets and so their productivity levels are different. The difference in characteristics highlighted above may not necessarily be a result of discrimination or exploitation. Most of these could be controlled and determined by individuals and by their intertemporal choices. Equating everyone’s compensation despite these factors would be unjustified.

3. Labor in neoclassical theory

In classical economics, the labor theory of value was used as a framework to explain why the prices of some goods were higher than others. If the production of a commodity requires more labor effort, the price of such commodities will be higher than other commodities

that require fewer labor hours to be produced. This theory remained in vogue in the pre-Industrial Revolution era and Muslim thinkers like Ibn Khaldun explained it in their works long before Smith, Ricardo, and Marx used it to explain the production processes and determination of prices (Azid 2010). Later on, this theory was replaced by marginal value and the marginal cost principle as a foundation for demand and supply behavior in the marketplace.

Another stream of literature in labor economics focuses on the labor market itself and how wages are determined in the labor market. Frictionless labor market equilibrium is a simple and useful framework to analyze comparative static results of supply shocks and technological advancement on equilibrium wage and employment. However, the frictionless model is not able to explain the presence of unemployment and vacancies at the same time (Rogerson *et al.* 2005). Search models tried to fill the gap by adding frictions in the model to incorporate the empirical realities of the labor markets. Peter Diamond, Dale Mortensen, and Christopher Pissarides are some of the prominent contributors in this strand of literature. Diamond (1982) and Mortensen and Pissarides (1994) explain wage determination in search models and how jobs are destroyed and created with frictions. This brand of literature is focused on a positive explanation of the empirical realities of labor market dynamics.

Another brand of literature in labor economics has tried to explain labor market rigidity, especially wage rigidity, to explain short-run business cycle fluctuations. The wage rigidity is explained on the basis of differential work effort by labor and the tendency of firms to pay above market clearing wages, i.e. efficiency wages to retain the talent pool and reduce the tendency toward labor shirking. New Keynesian and other economists have also focused on industrial organization and bring labor unions into the models to explain how insider–outsider relationships also result in wage rigidity.

Yet another stream of literature has focused on explaining the micro foundations of labor supply and labor demand. To explain labor supply decisions at the micro level, mainstream microeconomic theory uses the consumption/leisure framework to explain the allocation of time between leisure and working. Using this framework as a foundation, later studies have tried to explain the labor supply dynamics of, for example, immigrants, women, and minorities.

While the provision of property rights and self-centric choices is a better alternative to overcome coordination and incentive problems in the Marxian framework, the capitalistic economy has been unable to check extractive institutions which create systemic inequalities between capitalists and labor in income distribution. There are two reasons why wealth inequality may still persist in a capitalist society: (i) interest-bearing capital accumulation and (ii) incapacitated wealth redistribution mechanisms. Both the absence of broad-based wealth taxes and the legal decree of allowing compound interest on money capital are the prime sources of wealth concentration in a market economy. *Das Capital*, Volume III, Chapter 24 starts with this statement: “The relations of capital assume their most externalized and most fetish-like form in interest-bearing capital.”

The disincentive to enter into entrepreneurial pursuits because of a lack of willingness on the part of capitalists to put capital at risk while having the opportunity to earn fixed interest income reduces investment in the economy. A decline in the potential investment in productive pursuits reduces real sector economic growth, raises unemployment, and adds burden on governments’ fiscal positions to expend on transfer payments. Then, if more money is printed, it increases national debt, which can eventually result in a country paying a major portion of its gross national income every year in the form of interest.

Islam removes the extractive institutions that perpetuate income and wealth inequality in an economy, especially the institution of interest and the freedom to devise tax policy for elite interest groups in capitalist democracies that put the welfare of future generations in jeopardy by excessive deficit financing and inflation tax. A uniform *Zakat* levy on wealth and produce can result in tax rate smoothing and the automatic stabilization of the business cycle, and, hence, encourage long-term investments and decision-making without leaving the long-term planner in the private sector to worry about fiscal policy reversals (i.e. Ricardian equivalence).

4. Labor from an Islamic perspective: a comparative review

As a factor of production, labor refers to the provision of physical or mental exertion by way of contract for consideration in the form of wages or salaries (Sadeq 1987). From an Islamic standpoint, there is no fundamental problem with this mainstream definition of labor and its role in the production process. Nevertheless, the key difference in an Islamic framework comes in regards to moral injunctions such as filter and ethical checks on defining various legal and moral imperatives on the economic behavior of both capitalists and labor.

In an Islamic economy, the principle of “risk-based productive enterprise” and “interest-free financial intermediation” can result in growth that is inclusive and not hierarchical in its distributional effects. The principle of risk-based productive enterprise can foster capital formation and entrepreneurship in an Islamic economy, disallowing fixed returns on money capital in the form of interest. Increases in investment through entrepreneurial activities will increase labor demand and wages. Increases in wages will improve the standards of living of the poor working class and enable them to improve their productivity further. Productivity may also rise with the increase in capital per worker.

In Table 10.1, we provide a brief comparison of how Marxian, neoclassical, and Islamic economics view and define the role of labor and labor-related issues.

Second, we look at the specific institutions of Islam, especially Islamic work ethics, which resolve labor market imperfections, asymmetric information, and conflicting incentives. Islamic work ethics do not originate from the material incentive or legal requirements of engaging in righteous behavior, but from the concept of *Tawheed* and afterlife accountability. This results in a unique and distinct responsibility-based concept of private property rights and socioeconomic liberty within the bounds of responsibility set by Allah (SWT). Azid (2010) explains that the labor market in Islam is governed by the Islamic laws of fairness and justice.

This set of beliefs gives shape to Islamic work ethics, which can have a tremendous impact on economic choices. For instance, in modern labor economics it is suggested to pay premium wages to prevent people from shirking (underperformance). But the belief in afterlife accountability will compel the person to use his skills in a just manner since if deliberate underperformance cannot be identified in this world it will be brought to justice in the afterlife.

Islam encourages people to avoid indebtedness and dependency. It can have a positive impact on labor supply with a decline in the reservation wage and it will result in fewer people depending on transfer payments. A Hadith says:

Narrated Hakim bin Hizam: The Prophet said, “The upper hand is better than the lower hand (i.e. he who gives in charity is better than him who takes it). One should start giving

Table 10.1 A comparative view of labor-related issues in different economic systems

Ideas	Marxian	Capitalism	Islamic perspective
Private property rights	No. All property belongs to the community as a whole. It is held, used, and managed centrally.	Yes. Beyond codified law, there is no responsibility and accountability for the acquisition, use, and disposal of private property.	Yes. But the acquisition and use is subject to the concept that all things belong to Allah (SWT) and humans hold them as trustees.
Creation of value	Only labor effort creates value.	Value is determined in exchange based on marginal valuation.	Value is determined in exchange for lawful tradable commodities. For instance, money is not a tradable commodity.
Capitalists' share in income distribution	Nothing. Profit earned by capitalists is surplus value extracted in exchange.	Risk-based profits in exchange. It motivates entrepreneurial risk taking, innovations and creation of ideas.	Risk-based profits in exchange through trade in lawful goods and by strict adherence to laws and the spirit of ethical injunctions.
Income and wealth redistribution	No need as the central planner without private property rights would eventually result in perfect equality.	Inequality tolerated and considered necessary. Redistribution is through progressive taxes. No other moral imperative for sharing and giving.	Extractive institutions like interest-based financial intermediation are denied.
Reward to entrepreneurial risk	No reward. All value is created by labor effort in the production process. Capitalist extracts surplus value in exchange.	Expected positive profits. Not much normative compulsions beyond laws that only regulate liberty and rights in direct relations.	Redistribution is by way of <i>Zakat</i> , <i>Infaq</i> , <i>Waqf</i> , and inheritance distribution. Expected positive profits from lawful trade of commodities that can be traded as per Islamic moral injunctions and filter.
Wage inequality	Not permitted despite difference in ability, effort, work nature, and marginal productivity differences.	Permitted with regards to difference in ability, effort, work nature, and marginal productivity differences. But no ethical imperative to deal with insider-outsider and agency conflicts.	Permitted but, additionally, the impact of extractive and inequity-prone institutions is minimized to provide equitable access to harness skills for upward mobility.

first to his dependents. And the best object of charity is that which is given by a wealthy person (from the money which is left after his expenses). And whoever abstains from asking others for some financial help, Allah will give him and save him from asking others, Allah will make him self-sufficient.

(Sahih-Al-Bukhari, Book 24, No. 508)

Likewise, the Islamic concepts of “brotherhood” and “justice” can help in avoiding the “insider–outsider” problem in which people already employed in the organization do not allow a change in policy that hurts their private incentive but which can bring a positive social change by increasing employment to the outsiders. Hence, the externalities are internalized in the decision-making process by a person who believes in afterlife accountability and who regards his or her private property, social, and professional authority, and physical and mental faculties as a trust. Imbued with values of *Adl* (justice), *Ihsan* (benevolence), and *Ukhuwwah* (brotherhood), the relationships between the employee and the employer will be congenial, peaceful, and harmonious (Akhtar 1992).

Islamic work ethics also affect the behavior of employers. Employers are directed to not overburden their employee, to help them in work if necessary, and to pay them their due salaries without any delay. Prophet Muhammad (pbuh) said, “Give the labor his wage before his sweat dries” (Ibn-e-Majah). In another Hadith, Prophet Muhammad (pbuh) said, “I will be foe to three persons on the Last Day: one of them being the one who, when he employs a person that has accomplished his duty, does not give him his due” (Bukhari, No: 2109)

In another Hadith, employers are asked to treat their subordinates fairly and look after them. Prophet Muhammad (pbuh) said:

Those are your brothers [workers under you] who are around you; Allah has placed them under you. So, if anyone of you has someone under him, he should feed him out of what he himself eats, clothe him like what he himself puts on, and not put so much burden on him that he is not able to bear, [and if that be the case], then lend your help to him.

(Bukhari, No: 2359)

Last, we look at the emphasis of Islam on education and developing human capital for productive work. It is an empirical fact that most developing countries have lower labor productivity. Some of the reasons why people are not able to increase their productivity include: a lack of education and hence a lack of employable skills, poor health, and malnutrition. Islam has made it obligatory for every Muslim – men and women – to educate themselves and to seek permissible sources of income through entrepreneurship or offering their labor in productive enterprise. Hence, this will increase the effective and more productive labor supply and entrepreneurial capital at the same time.

5. Achieving egalitarian income distribution in an Islamic economy

In this section, we see how income is earned by households in an Islamic economy. The income function of an individual can be represented by:

$$\text{Equation (i)} \quad I_t = wL_t + E(\pi_t) + rA$$

Where r is the rent on physical asset holdings A . The market wage is w and labor supply is L_t . L_t is expected to be higher in an Islamic economy than in a capitalist economy. The reason is that the feasible income sources in an Islamic economy will not allow a perpetual income source that is a direct function of past accumulated wealth.

$E(\pi_t)$ is income from direct and indirect participation in entrepreneurial activities for an individual in time period t . $E(\pi_t)$ can be represented by:

$$\text{Equation (ii)} \quad E(\pi_t) = \sum_{j=1}^k p_j \pi_j$$

Provided that $0 < p_j \leq 1$.

Where p_j is the profit sharing ratio in project j agreed for time period t at time period $t-1$. π_j is the profit in project j .

If a person is the sole entrepreneur in some project j , then p_j will be equal to unity.

It can be seen that in an Islamic economy there is no provision for risk-free income. The legitimate sources of earnings include income from providing factor services like labor, land in ownership, possession, and risk, and any other income from entrepreneurial undertakings in investment opportunities in the real sector of the economy.

If the average ex post realized return from investment opportunities is low, the household will have to increase labor supply to compensate for the lower income from entrepreneurial investments. An increase in labor supply will reduce the wage bill for the production sector and hence it will increase the ex post realized rate of return from entrepreneurial investments. Hence, this adjustment process of capital mobility and labor market transitions will lead to an equilibrium state where workers' and capitalists' shares of income will be closer to each other except for differences in risk tolerance, risk preference, efforts, and skills.

6. Labor supply choices and market equilibrium in an Islamic economy

In this section, we present a simple model that explains how labor allocates time between leisure and work to generating enough income to purchase a given amount of consumption goods. Suppose a person wants to consume goods and services and he can generate purchasing power by earning labor and nonlabor income. In a capitalist economy, the person can earn interest on accumulated wealth. In an Islamic economy, this source of nonlabor income is not allowed.

The total time can be spent on either working (n) or in leisure (l). Total time can be normalized to 1. So,

$$\text{Equation (iii)} \quad n + l = 1$$

Total income is given by:

$$\text{Equation (iv)} \quad I = nW + rC$$

Where I is total income, C is accumulated wealth that can be invested to earn interest income and r is the rate of interest offered in a conventional economy. W is the nominal wage. In an Islamic economy, r will be zero and hence the second term in the income function will

disappear. For the purpose of highlighting the difference between interest-free and capitalist economics, we ignore other legitimate means of earning nonlabor income, such as rental income and profit on equity investments.

The person can consume this income on buying consumption goods. Hence, the budget constraint is given by:

$$\text{Equation (v)} \quad Pc + Wl = nW + rC$$

Where P is the price of composite consumption good and c is consumption expenditure. The left side of the equation is expenditure and the right side shows the income. Here, the cost of leisure is the nominal wage W foregone.

Solving (v) for c , we get:

$$\text{Equation (vi)} \quad c = \frac{(n-l)W}{P} + \frac{rC}{P}$$

Since the $\frac{rC}{P}$ term will disappear in an Islamic framework, the person will have to either supply more labor or invest more capital in entrepreneurial investments, either directly or through financial markets or intermediaries, in order to achieve the same level of consumption. Both decisions will increase market employment with rightward shifts in labor supply and labor demand curves. Hence, in an Islamic economic framework, not only do employment opportunities increase but there is also a simultaneous increase in self-employment and entrepreneurial pursuits (Khan 1992).

Next, we show the labor market equilibrium in an Islamic economy. Let the labor supply function be represented by equation (vii):

$$\text{Equation (vii)} \quad NS = a_0 - NW + w - TR$$

Where NS is the labor supply, NW is the net wealth after *Zakat* payments, w is the market wage per unit of labor employed, TR is the transfer receipts, and a_0 is the catch-all term for all other variables.

We can see that $\frac{\partial NS}{\partial NW}$ is negative. Hence, an increase in wealth will decrease labor supply. With the institution of *Zakat*, NW will over time be a decreasing function. Hence, the labor supply is expected to be positively influenced by *Zakat*. An increase in labor force participation will also increase the total income accruing to laborers.

Let the labor demand function be represented by:

$$\text{Equation (viii)} \quad ND = a_1 - w$$

Where ND is the labor demand, w is the market wage per unit of labor employed, and a_1 is the catch-all term for all other variables, such as productivity and capital stock.

In equilibrium, $ND = NS$.

$$\begin{aligned} a_0 - NW + w - TR &= a_1 - w \\ 2w &= a_1 - a_0 + NW + TR \\ w &= a_1 - \frac{1}{2} \{a_1 - a_0 + NW + TR\} \end{aligned}$$

The equation for the equilibrium level of employment is obtained by:

$$N = a_1 - w$$

$$N = a_1 - \frac{1}{2} \{a_1 - a_0 + NW + TR\}$$

$$N = \frac{2a_1 - \{a_1 - a_0 + NW + TR\}}{2}$$

$$N = \frac{a_1 + a_0 - NW - TR}{2}$$

It can be seen that $\frac{\partial N}{\partial NW}$ is negative. Hence, a decrease in wealth will increase the equilibrium level of employment. On the other hand, $\frac{\partial N}{\partial a_1}$ is positive, hence an increase in productivity and capital stock will increase the equilibrium employment as well. Also note that $\frac{\partial w}{\partial a_1}$ is positive.

7. Conclusion

In this paper, we comparatively analyzed the views and role of labor in Marxian, mainstream, and Islamic economics. We argued that the Marxian view of labor undermines the role of the entrepreneur. We also discussed that mainstream economics is also unable to create an equitable balance between capitalists and the working class, especially in the presence of extractive institutions like interest-based earnings of accumulated wealth and incapacitated wealth redistribution mechanisms. We argued that in an Islamic economy the prohibition of interest encourages productive enterprise and capital formation. We showed that these factors boost the labor demanded by the firms. In microeconomic decisions in the consumption/leisure choice framework, Islamic institutions positively boost the labor supply. We showed that in an Islamic economy wealth redistribution through *Zakat* and inheritance laws ensures the circulation of wealth. In addition to that, the prohibition of interest closes the door to risk-free income on money capital. This increases the cost of leisure and encourages people to supply more labor and/or invest money capital in productive enterprises. Finally, we also discussed the impact of Islamic work ethics on dealing with the problems of moral hazard, labor shirking, and rigidity in the labor market due to efficiency wages and insider-outsider relationships.

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Index

- Abu Yusuf 1, 18
Al Faruqi 93
Al-Afghani, Jamal-eddine 62
Al-Ash'ari, Abu Musa 18
al-Farabi 62
Al-Ghazali 1, 2, 6, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 22, 29, 41, 56
Al-Hamdi 30
Al-Jahiz 13
Al-Mawardi 18, 93
al-Isfahani, al-Raghib 29
allocation of resources 17, 21, 114
Asutay, Mehmet 9, 11, 23
asymmetric information 22, 135
Azid, Toseef 1, 9, 11, 23, 50, 96, 135
- Bahrain 90
Baitul Mal 121
Bangladesh 96
bargaining 20, 58, 62, 91, 93, 96
- capital 3, 16, 19, 33, 35, 38, 46, 47, 48, 49, 50, 51, 52, 87, 92, 104, 120, 131, 132, 134, 135, 139
capitalism 1, 3, 32, 34, 42, 43, 46, 87, 88, 91, 96, 133, 136
capitalist 87, 133, 134
Chapra, Umar 118
Choudhury, Masudul Alam 17, 51, 52, 53
classical 1, 7, 87, 131, 133
communism 133
consumption-leisure choice 5, 6, 133, 134, 140
conventional economy 6, 12, 13, 18, 19, 20, 50, 91, 124, 132, 138
corruption 16, 86, 87, 94, 104, 105, 107, 110, 111, 114
- debt bondage 86, 93, 94, 95, 97
developed countries 72, 126, 131, 133
developing countries 101, 102, 103, 123, 126, 131
Diamond, Peter 134
discrimination 90, 98, 101, 105, 133
division of labor 3, 11, 27, 29, 30, 33, 34, 35, 38, 39, 40, 41, 42, 43, 56
employee 10, 12, 13, 14, 15, 16, 21, 51, 57, 58, 59, 61, 71, 74, 75, 81, 86, 89, 90, 91, 92, 93, 94, 95, 98, 132, 137
employer 6, 9, 11, 13, 14, 15, 20, 21, 57, 58, 59, 71, 74, 75, 88, 89, 90, 91, 92, 93, 94, 95, 97, 98, 103, 107, 120, 137
entrepreneur 1, 5, 11, 12, 16, 17, 22, 52, 71, 119, 120, 132, 133, 134, 135, 136, 137, 138, 139, 140
Erbakan, Necmeddin 119
exploitation 2, 5, 14, 92, 118, 131, 132
- fardkifayah 9, 12, 17
female labor 2, 3, 4, 70, 75, 76, 77, 81, 82, 83
fiscalism 72
Fisher, Irving 47
foreign workers 60, 86, 88, 90, 91, 97
free mobility of labor 4, 116, 117, 118, 119, 122, 123, 127, 128
Friedman, Milton 88
fukaha 95
- Hasan 19, 102
Hassan 11, 94
Hayek 17
Hicks, John 127
high-wage 107, 119, 127
Human Development Index (HDI) 122, 123
- Ibn Arabi 65
Ibn Hazm 59
Ibn Qayyam 1, 6, 10
Ibn Taymiyyah 1, 6, 12, 13, 14, 16, 95

- Ibn Khaldun 1, 2, 3, 6, 12, 14, 15, 27, 28, 29,
 30, 31, 40, 41, 42, 43, 44, 50, 52, 56, 61,
 62, 66, 67, 134
 immigrant workers 120, 121
 income distribution 2, 17, 59, 120,
 127, 128
 income inequality 5, 104, 105, 131
 industrial revolution 32, 44, 70, 71, 72, 82,
 97, 131, 132, 134
 industrial sector 3, 4, 70, 73, 75, 76, 90
 industrialization 3, 5, 46, 48, 49, 51, 52, 70,
 71, 72, 75, 76, 82
 inefficiency of labor 11, 107
 insider-outsider relationship 5, 19, 20, 131,
 134, 136, 137, 140
 interest 11, 22, 94, 135
 International Labor Organization's
 Convention 94
 investment 107, 134, 135, 138
 invisible hand 33, 34, 35, 36, 37, 43, 87
 Islamic Economics/Economy 1, 2, 3, 5, 12,
 16, 19, 20, 46, 47, 50, 51, 52, 53, 56, 59,
 86, 95, 132, 135, 137, 140
 Islamic Ethics 2, 3, 4, 7, 20, 46, 86, 88, 96,
 133, 135, 137, 140
 Islamic Government 4, 61, 65,
 116, 117
 Islamic Law 2, 3, 59, 63, 64
 Istanbul 73, 74, 75, 76

 job 6, 11, 16, 18, 20, 21, 23, 34, 35, 51, 66,
 76, 80, 83, 86, 89, 93, 94, 95, 101, 102,
 103, 104, 107, 114, 131, 134

 kafala system 86, 88, 89, 90, 95, 96, 97
 Keynesian Economics 7, 19, 134

 labor 1, 2, 7, 9, 10, 18, 19, 47, 50, 56, 63,
 131, 135
 labor force 2, 3, 6, 13, 18, 83, 107, 124, 139
 labor market policies 107, 111
 labor policy 20
 labor-capital partnerships 50, 132
 laissez-faire 32, 87
 livelihood 11, 30
 lockouts 92

 Mainstream Economics 5, 135
 Marx, Karl 27, 131, 132, 133, 134
 Marxian Economics 5, 92, 132, 134, 140
 Mawdudi, Abu'l A'la 13, 56, 59, 60, 65
 MENA Countries 4, 55, 101, 102, 105, 107,
 110, 111, 112, 113, 114
 methodology 46, 47
 migrant workers 3, 60, 63, 65, 121
 mobility of labor 2, 4, 116, 117, 118, 119

 moral hazard 5, 20, 22, 140
 mudharabah 20
 muqaddimah 27, 41, 50
 musharakah 20

 neoclassical 7, 132, 133, 135

 Ottoman Empire 3, 4, 70, 71, 81
 overburdening of worker 59, 137

 payment 4, 21, 58, 86, 95, 97
 Phillips Curve 7
 productivity 31, 33, 34, 40, 42, 43, 51, 56,
 58, 114, 127, 137
 protection 4, 65, 86
 Provisionalism 71

 Qatar 86, 88, 90, 91, 93, 94, 95, 96, 97, 98,
 119, 124
 Qatari Labor Law 91, 94, 97
 Qutb, Sayyid 65

 redistribution 1, 5, 59, 60, 120, 134, 136,
 140
 regulation 3, 32, 55, 56, 57, 58, 63, 80, 90,
 101, 103, 105
 reimburse 94, 95
 Ricardian equivalence 135
 Ricardo, David 1, 27, 134
 rights of labor/worker 3, 20, 55, 87, 88, 96

 Saudi Arabia 57, 90, 91
 self-interest 3, 12, 20, 27, 32, 33, 34, 35, 36,
 37, 38, 40, 42, 43, 44
 Shah Waliullah 4, 6, 11, 12, 15, 16, 18, 116,
 117
 Sharia 8, 10, 12, 14, 17, 18, 19, 20, 22, 87,
 88, 90, 91, 95, 98
 Smith, Adam 1, 2, 3, 27, 31, 32, 33, 34, 35,
 36, 37, 38, 39, 40, 41, 42, 43, 44, 47, 87,
 88, 134
 standardized wage 96
 state administration 71, 75, 76, 81, 82
 Stigler 2, 16
 strike 91, 92, 93
 subsistence 8, 10, 16, 21, 29, 33, 34, 56
 substitution effect 6, 133
 surplus value 133, 136
 Syed 12, 93, 95

 Tabakoglu, Ahmet 92
 The Wealth of Nations 2, 32, 33, 34, 35, 36,
 38, 43, 44, 47
 timely payment of wages 4, 58, 86

 unemployment 116, 123, 124, 125

-
- value 2, 27, 53, 58, 132
- wage 2, 6, 7, 14, 16, 20, 21, 51, 75, 95, 96, 97, 101, 103, 104, 121, 127, 132, 133, 134, 135, 136, 137, 138, 139
- well-being 7, 11, 21, 33, 49, 58
- women labor 4, 11, 56, 58, 62, 70, 71, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 95, 105, 137
- work 2, 4, 5, 11, 13, 21, 22, 29, 31, 33, 37, 39, 40, 56, 57, 58, 59, 64, 86, 88, 91, 92, 133, 134, 135, 140
- worker 12, 39, 41
- workers 2, 3, 4, 10, 13, 44, 58, 94
- zakat 5, 16, 59, 60, 94, 120, 121, 135, 136, 139, 140
- Zaman, Asad 3, 5, 17, 46, 51, 53, 66