

Preliminary Formulation of Wage Theory from an Islamic Perspective

ABSTRACT – Persistent wage conflicts continue to manifest both in labor disputes and in competing economic ideologies, reflecting the absence of a universally accepted and just wage determination framework. Despite the proliferation of wage theories, none has fully resolved debates surrounding economic justice, positioning wage determination as a central normative and practical concern. This study aims to formulate a wage theory grounded in Islamic economic principles and to assess whether Islamic jurisprudence can offer a viable resolution to ongoing wage controversies. Employing an explanatory descriptive qualitative approach, the study systematically examines classical and contemporary Islamic sources to develop a preliminary conceptual framework for an Islamic wage theory. The findings reveal that Islamic wage theory adopts a markedly simple structure, emphasizing the contractual exchange of services (*ijarah*) and corresponding compensation, while deliberately excluding considerations such as workers' living costs, price volatility, or the market value of output produced. This formulation diverges fundamentally from conventional wage theories, showing no direct conceptual alignment with marginal productivity, subsistence, or bargaining-based models. The study concludes that this preliminary Islamic wage framework possesses the potential to address persistent critiques directed at existing wage theories by re-centering justice on contractual clarity and moral obligation, thereby fostering greater harmony between workers and employers within economic transactions.

ABSTRAK - Rumusan Awal Teori Upah Perspektif Islam. Konflik mengenai upah masih menjadi persoalan berkelanjutan, baik dalam praktik hubungan industrial maupun dalam perdebatan pemikiran ekonomi, yang menunjukkan belum ditemukannya konsep penetapan upah yang adil dan dapat diterima semua pihak. Berbagai teori upah telah dikembangkan, namun belum mampu menjawab persoalan keadilan ekonomi secara komprehensif, sehingga isu upah tetap menjadi tema sentral dalam diskursus ekonomi. Penelitian ini bertujuan untuk merumuskan teori upah dari perspektif Islam serta menilai sejauh mana prinsip-prinsip syariah dapat memberikan solusi atas konflik pengupahan. Penelitian ini menggunakan pendekatan kualitatif deskriptif yang bersifat eksplanatori dengan menelaah sumber-sumber pemikiran Islam klasik dan kontemporer sebagai dasar perumusan konsep. Hasil penelitian menunjukkan bahwa teori upah dalam Islam memiliki karakter yang sangat sederhana, karena berfokus pada pertukaran jasa (*ijarah*) dan imbalan atas jasa tersebut, tanpa memasukkan pertimbangan kebutuhan hidup pekerja, fluktuasi harga, maupun nilai produk yang dihasilkan. Konsep ini secara teoretis berbeda dan tidak memiliki kesamaan dengan teori-teori upah konvensional yang berkembang. Rumusan awal teori upah perspektif Islam ini berimplikasi pada tawaran pendekatan alternatif terhadap keadilan pengupahan, dengan menekankan kejelasan akad dan tanggung jawab moral, sehingga berpotensi menyatukan kepentingan pekerja dan pengusaha dalam transaksi ekonomi.

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INTRODUCTION

Disputes between workers and employers over wage determination are a recurring phenomenon, occurring almost annually in many labor markets. This condition arises from a fundamental economic principle that emphasizes achieving the greatest possible outcomes (profits) with the smallest possible sacrifices (capital), thereby generating an inherent conflict of interest. Workers seek to maximize wages to improve their welfare, whereas employers aim to minimize wage costs in order to maximize profits. Although numerous wage theories have been developed to address this conflict, none has succeeded in establishing a framework that is mutually acceptable to both parties. Governments often intervene by implementing wage policies to mediate these disputes; however, such interventions frequently fail to fully satisfy either workers or employers. Consequently, a critical and urgent reexamination of wage theory remains necessary.

Capital and labor constitute the primary factors of production. Labor plays a crucial role in transforming resources into goods and services that fulfill diverse human needs. Work, therefore, functions as a means of producing value for economic survival and development. Conversely, natural resources represent capital, which remains unproductive without human effort and processing. The exploitation and transformation of natural resources require both tangible and intangible forms of capital. The absence of either labor or capital renders the production process impossible. In practice, however, labor markets often experience an oversupply of workers, which weakens workers' bargaining power and creates conditions conducive to exploitation. As a result, workers' demands are frequently centered on wage increases.

David Ricardo's labor theory of value and wages explains that the exchange value of goods is determined by production costs, primarily raw materials and labor wages. In order to maximize profits, these costs must be minimized. Since raw material costs tend to be relatively inflexible, wage costs become the primary variable subject to reduction. Consequently, wages are set at a level sufficient only to sustain workers' basic livelihoods, commonly referred to as subsistence or natural wages. Ricardo argued that when prices exceed production costs, including wages, firms are able to generate economic profits, at least in the short term (Kharitonashvili, 2017).

Ricardo's theory was later challenged by Karl Marx through the development of the surplus value theory. Marx argued that workers produce value exceeding the wages they receive, with the excess appropriated by capital owners as profit. According to Marx, wages are typically determined based on working time and are intended to meet workers' daily subsistence needs. However, when wages fail to fully compensate workers for the value of their labor, workers are exploited. The unpaid portion of labor value that contributes to profit accumulation is referred to as surplus value (Marx, 1887).

These contrasting theories represent two opposing extremes and subsequently gave rise to various intermediate wage theories, including the iron wage theory, marginal productivity theory, needs-based wage theory, ethical wage theory, and discriminatory wage theory. Each of these approaches was developed in an attempt to reconcile the competing interests of labor and capital. Nevertheless, the proliferation of wage theories itself reflects the persistent inability of economic thought to resolve the wage problem conclusively. This unresolved condition

highlights the need for a concept of fair wages that is acceptable to all parties. An important question thus arises: can Islam offer a solution to this enduring issue?

Several scholars have explored Islamic perspectives on wage determination. Rahman (1995) argued that wages should be determined based on workers' living costs. Efendi (2003), drawing on the views of al-Mawardi, emphasized that fair wages must ensure that no party is harmed and should be sufficient to meet workers' minimum needs. Ghofur (2020) suggested that wage adequacy should be assessed based on three fundamental needs: food, clothing, and shelter. Kholiq (2016) highlighted the necessity of reconstructing the wage system in accordance with Islamic teachings by establishing minimum wages that meet workers' and their families' needs, while allowing reasonable wage differentiation based on job type and worker competence. Fata (2023) emphasized fairness and proportionality in wage determination, asserting that wages should reflect workers' contributions to the firm while remaining within the company's financial capacity. Efriadi (2023) argued that Islam promotes freedom of work based on individual ability and expertise as a foundation for national wage standards. Despite these contributions, existing Islamic wage formulations have not fully articulated the core conceptual foundations of wages in Islam, nor do they closely correspond to established wage theories.

Therefore, this study seeks to reexamine the Islamic concept of wages and formulate it into a coherent wage theory. Specifically, the research addresses four questions: (1) What is the Islamic concept of wages? (2) How does it compare with other wage theories? (3) What critiques emerge regarding wage theory? and (4) How can a modern wage theory be formulated from an Islamic perspective? In essence, this study aims to develop a wage theory grounded in Islamic principles.

LITERATURE REVIEW

Conceptual Foundations of Wages and Labor Exchange

Human beings are inherently driven to expend their energy to generate wealth in order to sustain their livelihoods. Given the diversity and complexity of human needs, individuals are generally unable to satisfy all necessities through their own labor alone. As a result, economic interaction emerges in the form of exchange, whereby individuals trade the outcomes of their labor with others (Kamri et al., 2014). In social contexts, individuals allocate their labor both for direct consumption and for exchange, as human needs are numerous and varied. Such exchanges may occur either between labor and labor or between labor and wealth (an-Nabhani, 1996).

Wages represent the rights of workers or laborers, received in monetary form as compensation from employers for work or services that have been or will be performed. Within conventional economic systems, wages play a critical role, as they directly influence workers' welfare and the well-being of their families, while simultaneously affecting production costs, product pricing, and firm competitiveness. Rahman (1995) emphasized that wages have far-reaching implications; inadequate or unfair wages reduce workers' purchasing power, lower their standard of living, and ultimately affect broader societal welfare, given workers' central role in consumption within national economies.

Wages should be commensurate with the activities performed and sufficient to meet reasonable living needs. This requirement arises from differences in individual abilities, needs, and

environmental conditions (Kartasaputra, 1994). Consequently, wage systems are designed by considering multiple perspectives, including those of workers and employers. In practice, compensation is determined through various policies and strategies, with three wage systems commonly applied in the workplace: time-based, output-based, and performance-based wage systems. The time-based wage system determines wages according to the duration of work performed, the output-based wage system bases compensation on the quantity or quality of output produced, and the performance-based wage system links wages to performance levels achieved within a specific period.

However, conventional wage systems are largely influenced by market mechanisms, in which wages are determined by labor supply and demand, often with limited consideration of social and ethical dimensions. Although such systems offer flexibility and responsiveness to market conditions, they frequently result in injustice, particularly in the form of significant wage disparities and insufficient protection for vulnerable workers (Pangestu & Jaharuddin, 2024).

Wage Theories and Regulatory Frameworks

Wage theory refers to conceptual frameworks that explain the determinants of wage levels. Economists from classical, neoclassical, and Marxist traditions have proposed various wage theories. In addition to the natural wage theory and surplus value theory, several prominent theories have shaped wage discourse. The Iron Wage Theory, developed by Ferdinand Lassalle, posits that wages in the long run tend to settle at a level sufficient only to meet workers' minimum subsistence needs. The Marginal Productivity Theory, associated with Alfred Marshall, John Bates Clark, and Knut Wicksell, argues that wages are determined by workers' marginal productivity, meaning that compensation should reflect the additional output contributed by an extra unit of labor. The Need-Based Wage Determination Theory, proposed by John R. Commons, asserts that wages should be set according to the decent living needs of workers and their families. The Ethical Wage Theory maintains that wages should meet not only workers' needs but also those of their families, with compensation increasing in line with workload. Finally, the Discriminatory Wage Theory explains intentional wage differentiation, whereby workers receive varying levels of compensation based on job type, responsibilities, and other distinguishing factors.

In Indonesia, wage determination is regulated by Law Number 13 of 2003 concerning Manpower and reinforced by Government Regulation of the Republic of Indonesia Number 78 of 2015 concerning Wages, Article 1 paragraph (1). Under these regulations, wages are defined as workers' rights expressed in monetary form as compensation from employers, determined and paid based on work agreements, collective agreements, or statutory provisions, including allowances for workers and their families for work or services performed or to be performed.

Wage components under Indonesian law consist of basic wages, fixed allowances, and variable allowances. Basic wages represent core compensation based on job level or type, as determined through agreement. Fixed allowances are regular payments related to work and family welfare, such as child, health, and housing allowances, paid concurrently with basic wages (Ibrahim et al., 2021). Variable allowances are irregular payments, directly or indirectly related to workers and their families, and are not paid alongside basic wages. Facilities and bonuses, therefore, are

excluded from wage components. This regulatory framework reflects characteristics of multiple conventional wage theories, yet it does not incorporate the Islamic concept of wages.

The state bears responsibility for ensuring that wage levels are neither so low that workers' basic needs remain unmet nor so high that they undermine profit-sharing within economic cooperation. Determining fair wages thus remains a complex challenge, particularly in identifying appropriate measurement criteria to translate the abstract concept of wage justice into practical labor market applications.

METHODOLOGY

Research Design

This study adopts a qualitative research design with a descriptive and explanatory orientation. The qualitative approach is employed to facilitate an in-depth understanding of wage concepts as they develop within both Islamic and conventional economic frameworks. Descriptive qualitative research is particularly appropriate for examining phenomena holistically and for generating new theoretical insights rather than testing predefined hypotheses (Sugiyono, 2017). The explanatory nature of the study allows for an exploration of the underlying rationales and conceptual foundations that shape wage determination theories. Consequently, this research is conceptual in nature and does not involve empirical measurement or statistical testing, as the Islamic wage framework has not yet been operationalized into empirically measurable variables.

Data Collection

Data for this study are derived entirely from secondary sources through an extensive literature review. The sources include peer-reviewed scientific journals, academic books, classical and contemporary Islamic economic texts, and other relevant scholarly references related to wage theory, labor economics, and Islamic jurisprudence. The literature review serves an explanatory function by identifying and clarifying the reasons behind the development of various wage concepts and theories (Hamzah, 2020). Relevant materials were systematically retrieved and selected based on their theoretical relevance and contribution to the discussion of wage determination from both Islamic and conventional perspectives.

Data Analysis

The data analysis process involves a systematic and in-depth examination of the collected literature. Qualitative analysis is conducted by identifying key themes, concepts, and theoretical arguments within the selected sources (Ibrahim, 2023). A comparative analysis approach is applied to highlight similarities, differences, and conceptual distinctions between Islamic wage principles and conventional wage theories. This analytical process enables the formulation of a preliminary Islamic wage theory and provides a structured conceptual framework for understanding wage determination within an Islamic perspective. The chosen analytical method is appropriate given the conceptual nature of the study and the absence of empirically measurable variables related to Islamic wage determination.

RESULTS AND DISCUSSION

The discussion of wage theory is inherently complex due to the diversity of economic, social, and ethical considerations involved. To facilitate systematic analysis, this section is divided into three main parts: (1) the concept of wages (*ijarah*) from an Islamic perspective, (2) a critique of conventional wage theories from an Islamic standpoint, and (3) the formulation of a proposed Islamic wage theory.

The Concept of Wages (*Ijarah*) from an Islamic Perspective

Wages are permissible in Islam as compensation for specific services rendered. Islamic jurisprudence permits leasing arrangements, as evidenced in Surah Al-Baqarah [2]:233, which addresses compensation for breastfeeding services. If such transactions are deemed permissible, it logically follows that individuals may lease their labor to perform lawful work. Wages or salaries constitute payments provided by employers to workers in exchange for their contributions to the production process. Additional scriptural support is found in Surah az-Zukhruf [43]:32: "Do they apportion the mercy of your Lord? We have apportioned between them their livelihood in this worldly life and raised some of them above others in rank, so that some of them may employ others."

The Arabic term for wages is *al-ujrah* (Warson, 1997). Linguistically, *al-ajru* denotes *iwad* (exchange or substitution); consequently, *al-sawab* (reward) is also referred to as *al-ajru* or *al-ujrah*. Several Quranic verses and prophetic traditions (*hadith*) pertaining to wages and *ijarah* have been compiled in DSN-MUI Fatwa Number 09/DSN-MUI/VI/2000 concerning *Ijarah* Financing. Additional relevant verses and *hadith* not included in the fatwa include: (1) "And do not deprive people of their due and do not commit abuse on earth, spreading corruption" (QS. Ash-Shu'ara [26]:183); (2) Abu Dharr reported that the Prophet (peace be upon him) stated: "They (your slaves and servants) are your brothers. Allah has placed them under your care; so whoever has relatives under his care must feed them what he himself eats and clothe them as he himself wears; and not burden them with arduous tasks, and if you burden them with such tasks, then assist them in completing them" (Narrated by Bukhari I/16, II/123-124, IV/125; Muslim V/93; Abu Dawud No. 5158; Tirmidhi I/353; Ibn Majah No. 3690; Bayhaqi VII/7; and Ahmad V/158 and 161); (3) Ibn Shihab reported that Urwah bin Zubair narrated from Aisha (may Allah be pleased with her) that the Prophet (peace be upon him) and Abu Bakr once hired a man from Banu Da'il as a guide. This man followed the religion of the Quraysh. They entrusted him with their two riding animals and arranged to meet at the Cave of Thawr after three nights, with the animals to be delivered at dawn on the third day (al-Bukhari, 1997).

Islahi (1997) references Ibn Taymiyyah's position that wages must be linked to the fulfillment of workers' rights and obligations—a concept termed the just or honest price. Ibn Taymiyyah addresses this issue through two foundational concepts: equal compensation (*'iwadh al-mitsl*) and just price (*thaman al-mitsl*). Equal compensation is measured and estimated by equivalents, representing the essence of justice. In Islamic economics, workers' wages are determined by the nature of the work and must be communicated before work commences. Providing advance information regarding compensation is intended to motivate workers and provide them with a sense of security. Workers fulfill their duties in accordance with the employment contract

established with the employer. Wages are determined based on the type of work performed, as stipulated in QS. Al-Ahqaf [46]:19: "And for all there are degrees according to what they have done, and so that Allah may fully compensate them for their deeds, and they will not be wronged."

Ijarah represents an employer's (*musta'jir*) effort to obtain benefits (services) from an employee (*ajir*), and correspondingly, an employee's effort to obtain assets (wages) from the employer. The intended benefit refers to the suitability or capacity of a good or service to satisfy human needs. Thus, *ijarah* constitutes a service contract (transaction) with compensation (wages/rewards). The fundamental principle is that both employer and employee must comprehend the value of the work, and both parties must agree upon the value of the service (mutual consent). The contemporary challenge lies in the fact that employers and employees often remain unaware of the intrinsic value of a job and rely exclusively on meeting daily living needs as a benchmark.

Employment contracts occasionally refer to the benefits derived from work performed by an employee, and at other times to the employee's services themselves. When transactions refer to the benefits of specific work, the object of the contract is the benefits generated by that work—examples include medical services, teaching services, and consulting services. When referring to employee services, the focus shifts to benefits for individuals, such as factory workers, public or private sector employees, or domestic helpers. Consequently, benefits must be clearly specified. Contract clarity requires three elements: (a) the form and type of work, (b) working hours, and (c) the effort expended. When benefits are clearly defined, wages can be correspondingly determined with precision.

Based on the *ijarah* concept, wage determination is fundamentally simplified. This simplicity can resolve complex contemporary wage disputes. The complexity of modern wage systems arises from the generalization of wage concepts to apply universally across all individuals and economic activities, with the compromise of establishing minimum wages based on minimum living requirements. On one hand, minimum living standards vary considerably among individuals; on the other, these needs continuously evolve and expand. This complexity is further compounded by the inflation inherent in fiat currency systems, rendering the value of money used as a wage standard inherently dynamic.

Empirical evidence demonstrates that certain jobs possess service values that, when standardized in monetary terms, exceed minimum living requirements, while others are equivalent to or fall below such requirements. Establishing specific values carries the potential to: (a) suppress jobs with high service values through the minimum wage concept, and (b) compensate jobs with low service values beyond their actual worth. Both scenarios can lead to injustice for workers and employers alike. Reforming the wage concept by focusing exclusively on the value of services rendered produces a just framework wherein no party is disadvantaged. Workers' demands for continuous wage increases would diminish, as wages are assessed based on the value of services provided. Employer grievances would likewise decrease, as wages are grounded in service value. This approach streamlines wage negotiations, transforming them from a national labor movement into individualized discussions.

Labor unions would redirect their efforts toward educating workers regarding the value of their services and correlating this with appropriate wages. When discrepancies arise, unions can advocate accordingly. Currently, trade unions primarily focus on raising government-established wage standards (UMP/UMK)—a systemic issue arising from continuously increasing costs of living due to inflation, rising living standards, or expanded needs. This Islamic wage concept offers a solution to the ongoing conflict between workers and employers resulting from inaccurate wage standard determination based on meeting basic living needs. Returning wage determination to its economic foundation—the exchange of services—without linking it to various complex factors, can substantially untangle and resolve labor problems.

Critique of Conventional Wage Theory from an Islamic Perspective

Before comparing the fundamentally simple Islamic concept of wages with the various wage theories underpinning contemporary wage determination, it is necessary to examine in greater depth the positions of several classical scholars regarding wage determination.

The first opinion, advanced by Imam al-Mawardi in his work *Ahkam al-Sulthaniyah*, states: "The Imam must maintain a balance between employer and employee, ensuring that neither party takes more than their due nor is disadvantaged in their work." This position emphasizes the state's role in ensuring economic justice—specifically, that the state must safeguard workers' welfare so they can meet basic needs without oppressing employers. This implies that the state possesses the authority to regulate wages when inequality or labor exploitation occurs. The second opinion, proposed by Abu Ubayd in *Al-Amwal*, asserts: "Workers have the right to adequate wages" (Abu Ubayd, 1988). This means wages should be paid based on clear agreements and adjusted according to the benefits of work performed, while remaining sufficient to meet the basic needs of workers and their families to prevent forced poverty.

The third opinion, expressed by Ibn Taymiyyah in *Majmu' al-Fatawa*, states: "If workers are wronged in their wages, or their wages are insufficient to meet their needs, then the government is obligated to correct them to achieve the public interest." This suggests that wages should be left to market mechanisms provided no injustice exists. However, if market dysfunction results from monopoly or exploitation, the government may establish a minimum wage. The fourth opinion, articulated by Al-Ghazali in *Ihya' Ulum ad-Din*, states: "Whoever takes advantage of others without giving sufficient compensation has wronged them." This positions wages not merely as economic values but as moral and social ones. Al-Ghazali emphasized employer ethics and strongly criticized employers who suppress wages to increase profits, as this contradicts the *maqasid* (objectives) of Sharia.

In addition to classical scholars, several modern scholars have also addressed wages. First, Sayyid Qutb, in *al-'Adalah al-Ijtima'iyah fi al-Islam*, argued that wages must enable workers to live with human dignity; contractual fairness alone is insufficient—wages must be socially just, capable of meeting basic needs including food, clothing, shelter, education, and healthcare. Second, Abul A'la al-Maududi, in *Nazariyyah al-Islamiyyah fi al-Iqtishad*, rejects capitalist systems based solely on supply and demand. Wages must be based on the minimum requirements for a decent life rather than merely the market price of labor, and Islamic states are obligated to establish minimum wage standards according to local needs.

Third, Yusuf al-Qaradawi, in *Fiqh az-Zakah*, asserts that living wages (*ujrah 'adilah*) are part of *maqasid al-shari'ah*. If wages are too low for workers to fulfill their religious obligations or live with dignity, this constitutes injustice requiring state intervention. Fourth, Muhammad Baqir al-Sadr, in *Iqtishaduna*, argues that wages serve as a means of income distribution that maintains social balance by combining productivity and needs as the two primary factors in wage determination, ensuring fairness for both employers and workers.

The term commonly employed by Islamic scholars is "*ujrah al-ma'rufah*"—meaning a good wage that is fair and appropriate according to societal customs. Therefore, the concept of "*al-ujrah al-ma'rufah*" is not a fixed value but rather a socially accepted value that does not oppress either party. In other words, it represents a form of socially emergent justice rather than administratively imposed justice. Based on this analysis, the Islamic concept of wages: (1) depends on mutual agreement considering benefits, (2) must be fair and appropriate according to societal customs, (3) does not require state-established standards, and (4) in cases of conflict, is resolved through judicial processes referring to the concept of commensurate wages. Therefore, Islamic wage theory differs fundamentally from contemporary wage theories.

The initial development of wage theory resulted in the oppression of laborers and workers. The natural wage theory eliminated worker welfare by setting wages solely at subsistence levels. Workers were treated as mere means of production. The natural wage theory, which holds that subsistence wages generate profits, clearly contradicts Islamic principles. This theory represents another form of slavery, as it allows workers merely to survive and continue working for employers. Compared to slavery in Islam, enslaved persons were ideally treated equally in meeting basic needs. While this approach may be profitable short-term, long-term economic performance declines. Consequently, this theory has been widely rejected, prompting efforts to revise the original formulation.

There are similarities between surplus value theory and the Islamic wage concept, particularly in measuring labor versus working time. However, apparent differences emerge when linking wages to daily living needs, and the theory also asserts that workers' rights are stolen through profits taken by employers. The Iron Wage Theory, which posits that wages will reach long-term equilibrium when sufficient to meet workers' minimum needs, clearly differs from the Islamic concept, which determines wages based on services rendered rather than basic needs. This theory would stagnate and hinder improvements in workers' living standards.

Marginal theory views value simultaneously from producer and consumer perspectives, or from demand and supply perspectives. Therefore, value is highly dependent on demand and supply interactions. Marginal utility determines demand—representing the limit of something's capacity to meet needs; beyond that limit, fulfillment decreases or may even become harmful. Supply value is determined by marginal production burden—the limit of effort expended to produce goods; expending additional production levels results in losses. This value changes at the equilibrium point between demand and supply.

Marginal Productivity Theory, which ties workers' wages to their contribution to company revenue, has been criticized by needs-based theory. The latter argues that workers' wages should sufficiently cover basic needs, education, healthcare, recreation, and savings. This approach

presents challenges for employers, as many worker needs become the employer's responsibility as a consequence of time and energy devoted. Furthermore, this theory struggles to establish universally applicable and fair living standards for all workers.

Marginal Productivity Theory is also inconsistent with Islam, as some services do not generate wealth. The ethical wage theory, in addition to challenging the iron wage theory, refines needs-based theory by adding that wages should increase as living burdens increase, including wage adjustments based on rising prices of essential goods. The concept of a fair wage must align with workers' needs—specifically, the minimum cost of living. Consequently, wages can be reduced if living burdens decrease. Under this concept, a worker's wage is determined by their living burden without considering the services their labor provides to individuals and society. This deviates from economic principles. While theoretically sound, this approach fails to address income disparities even when workload and job type are similar.

The Need-Based Wage Determination Theory states that wages are determined by workers' and their families' living needs rather than productivity levels or labor market mechanisms. This resembles ethical wage theory, which argued against the iron wage theory by stating that wages are not solely intended to meet workers' and their families' needs; therefore, as workloads increase, wages should increase correspondingly. The distinction lies in primary focus: needs-based theory ensures workers maintain decent living standards, while ethical wage theory bases wage determination on moral and ethical considerations—justice, humanity, and social responsibility to protect workers from exploitation. Regarding these two theories, most scholars' interpretations appear similar. However, no Islamic evidence links wages to workers' living needs.

Discrimination Wage Theory states that wages can be designed differently (discriminatorily), so some workers receive lower wages while others receive higher wages for identical work. This theory differs from the Islamic concept, as wage discussions should focus on the job rather than inherent worker characteristics such as gender, education level, or job type. Discrimination wage theory exists to provide common standards with specific approaches: equality of job type, similarity of education and skills, and consideration of differences in abilities or energy expenditure. This theory results in female workers receiving lower wages than male workers' standard wages, and college graduates receiving different wages than high school graduates for identical work.

Examining existing wage theories reveals that they are substantively different from the Islamic concept and cannot be reconciled with it. The Islamic wage concept is straightforward—concerning services rendered and compensation—while existing theories become complex through linkages to workers' and families' living needs, productivity levels, and workers' conditions. Some researchers examining wages from contemporary Islamic perspectives have been trapped and biased by characteristics of existing wage theories.

The development of wage theory and high wages earned by workers in capitalist countries such as Europe and America actually represent modifications of the capitalist system, granting workers rights beyond their entitlements. Despite this, what workers receive remains limited to minimum living standards—sufficient for very modest living, not production-standard living.

Conversely, the high living standards in European and American societies make their minimum wages appear decent compared to most developing countries. In reality, these workers still cannot earn wages commensurate with their production.

The basic principle is that, as long as estimates remain based on minimum subsistence requirements, workers' ownership will remain limited according to minimum standards required to meet needs per community standards. Thus, workers' wages in underdeveloped countries suffice only for primary needs; in developing countries, they may meet secondary needs; and in developed countries, they may meet tertiary needs. According to Karl Marx, the sole source of value is the effort expended in production. Capitalist investors purchase labor from workers for meager wages barely sufficient for life's necessities and work enablement. This labor is then exploited to produce goods of greater value than what workers receive. Marx considered this a violation of workers' rights, which employers claim as income, profits, or interest.

The fundamental concept views labor as the basis of production; therefore, workers' wages are determined based on output produced. All production costs are traced to one element: labor. This view clearly contradicts facts, as reality demonstrates that wealth created by Allah SWT and found in nature constitutes the basis of goods' value. Therefore, the socialist view of wage estimation—that wages equal goods produced—is flawed. Attempts to determine wages based on resulting production also contradict materialism and constitute an error, because production factors used and costs expended are deliberately invested in producing goods and are not solely part of workers' labor. Therefore, wage estimates are contained only in services, not in goods produced.

Costs incurred to increase asset utility, or generate utility through labor, actually transform assets into other forms capable of generating specific utility. Therefore, making labor the basis of production is both flawed and contradictory to facts. Attempting to make goods produced the standard for workers' wages is tantamount to ignoring material and production costs sacrificed. Evidence shows that humans are constantly driven to fulfill their needs. This drive motivates efforts to obtain compensation—whether from nature, from fellow humans, or by applying energy to natural resources—so that wealth suffices to fulfill needs.

Proposed Islamic Theory Formulation

According to an-Nabhani (1996), services are closely related to benefits for people. These benefits consist of two parts: (a) benefits for deeds and (b) benefits for persons. Benefits for deeds relate to skills and specific output, while benefits for persons are based on presence and effort. In cases involving benefits for deeds, service providers must deliver work results rather than time, with wages commensurate with service benefits. Conversely, in cases involving benefits for persons, service providers must provide "benefits of presence and effort" rather than intellectual output, with wages paid based on effort and time benefits. Wages must be commensurate with benefits delivered, not simply workers' needs or labor market prices.

Therefore, it is inappropriate to equate wages for every person and every job—such as determining salaries for civil servants and private sector employees, or standard wages for laborers. Each person's abilities differ, resulting in varying quality and quantity of output. Jobs also vary not only in type but also in effort level (including mental effort), difficulty, and risk

involved. Consequently, fixed formulas cannot serve as standard wage determination; what can be developed are wage determination guidelines for specific job types.

Conversely, setting national or regional minimum wages is unnecessary, as this would conflate two matters: economic and social. Developing wage determination guidelines is a private economic matter, not public policy. Therefore, the state need not develop regulations related to wage determination guidelines. This section may appear controversial, as states currently participate in developing wage standards.

Experts develop wage determination guidelines to determine service values. Five main factors are considered in determining wages: (a) value of benefits, (b) skill level, (c) job risk level, (d) working hours, and (e) effort and thought. Therefore, greater benefits received by employers warrant higher appropriate wages (an-Nabhani, 1996; Abu Ubayd, 1988; Ibn Taymiyyah, 1961). Rare levels of expertise and competence, as well as special charity, naturally warrant higher wages due to different expertise benefits—for example, bricklayer wages differ from goldsmith wages (al-Ghazali, 1993; Ibn Khaldun, 2004; Ibn Qudamah, 1985; al-Mawardi, 1996). Regarding risk level, high-risk jobs (military, mining, healthcare) receive greater compensation due to significant physical or mental risks (al-Ghazali, 1993; Ibn Taymiyyah, 1961; al-Qaradawi, 2011; al-Kasani, 1986). Specifically for jobs whose benefits are measured based on time (administrative work, personal drivers), wages are proportional to time devoted (al-Nawawi, 1997; al-Mawardi, 1996; Yusuf, 1979; Ibn Taymiyyah, 1961). Both energy and thought are valued in Islam, so their benefits can be estimated (al-Ghazali, 1993; an-Nabhani, 1996; Abu Ubayd, 1988).

As an illustration, we can compare service value measurements between office workers and factory workers, as presented in Table 1. For example, using weightings of 30% for benefits, 25% for expertise, 15% for risk, 15% for working time, and 15% for energy-intelligence, with a rating standard of 1–10.

Table 1. An Illustration Comparing Measurement of Service Values

No.	Factor	Weight (%)	Office Worker		Factory Worker	
			Value	Weighted Value	Value	Weighted Value
1	Benefit	30	7	21.0	8	24.0
2	Expertise	25	8	20.0	5	12.5
3	Risk	15	3	4.5	7	10.5
4	Working Time	15	6	9.0	8	12.0
5	Energy	15	8	12.0	6	9.0
Total Score				66.5		68.0

Based on this illustration, factory workers are assumed to have higher benefits and risks. Therefore, from an Islamic jurisprudential perspective, they are entitled to equal or slightly higher wages when assessed from a *manfa'ah* (benefit) perspective. While office workers excel in skills and mental workload, their direct production benefits may be less. Therefore, in accordance with Islamic wage justice principles, factory workers should not be paid below acceptable minimum wages, and office workers should not be paid solely based on status or title.

Through simplified wage determination, certain job types may yield low wages insufficient to cover living expenses, or individuals with limited skills may receive only small wages.

Contemporary conventional society, which still employs standard wage systems focused on meeting revised minimum living needs, naturally results in relatively equal incomes for everyone—certainly different from entrepreneurs or high-ranking officials. This situation makes it difficult for most people to meet living needs with applicable minimum wages. The Islamic concept addresses this situation by encouraging livelihood provision at family and extended family levels, as well as optimizing Islamic social distribution patterns such as *zakat*, *infaq*, and *sadaqah*. Conversely, in a comprehensive Islamic concept, the state should serve as the last resort if livelihood fulfillment and social assistance cannot meet basic needs. With such a safety net in place, poverty and worker exploitation can be prevented.

Conversely, the concept of meeting workers' needs (including their families') as a wage standard is intended to protect workers from employer exploitation. Without such protection, workers would receive only wages meeting basic needs. However, the concept of meeting minimum needs, even in modified versions, continues to constrain workers with wages merely meeting minimum needs for workers and their families. Wage increases for employers mean higher production costs, resulting in higher selling prices. This causes demand decreases and impacts net profits.

Furthermore, when product competition arises, selling prices must be lowered, and workers' wages become the easiest target for suppression. Therefore, although wage standards are often stated to protect workers, they continue to ensnare them in practice. Stepping outside the box by reformulating wage determination patterns can actually lead to changes in society's economic structure.

However, establishing fair wages for workers in accordance with Sharia is not easy. Therefore, it is necessary to discuss: (a) employment conditions and (b) principles underlying wage (salary) determination.

Terms of Employment

Ijarah involves utilizing contracted entity services. If *ijarah* involves a worker (*ajir*), what is utilized is their labor—including both intellectual and skilled work. Therefore, the basic principle for contracting a worker is determining job type, along with time, wages, and labor. Job type must be clearly defined to avoid bias, as unclear *ijarah* transactions are legally flawed. Time must also be specified—whether daily, monthly, or yearly. Wages must also be determined. This concept is based on a *hadith* from Ibn Mas'ud, wherein the Prophet (peace be upon him) said: "If one of you contracts a worker, he should inform him of his wages" (Narrated by ad-Daruquthni). *Ijarah* compensation (salary, wages, honorarium) may be cash or non-cash, in the form of property or services. Anything that can be valued at a price can serve as compensation, provided it is clear.

Conversely, it is important to consider workers' energy (ability) so they are not burdened with work beyond their capacity. This is based on the Quran, chapter 2:286: "Allah does not burden a person except according to his capacity." This verse guides against requiring workers to exert energy beyond reasonable capacity. The challenge is that human energy is difficult to measure using standard methods due to differences in job types. Mining work undoubtedly differs from

office work. Therefore, one approach is working hours, assuming that limiting working hours measures the amount of energy required.

The main principle for determining wages is the level of energy expended in work. If a job can be defined in terms of form, time, and effort required to perform it, this can be used to determine wages. Wages received by workers as compensation for work performed constitute workers' property, as a consequence of their expended effort.

The contract in employment (*ijarah*) is based on service benefits derived from workers' efforts. Wages are measured based on service benefits. Physical labor is not the wage standard, nor the standard for service benefits, because work is sometimes intellectually demanding or requires specific skills. Therefore, wages are compensation for service benefits, not solely compensation for physical labor expenditure.

Consequently, wages can vary according to job type. Wages can vary according to benefit levels provided in a single job, not because of differences in physical labor amounts. Physical labor is not used in determining wage amounts because the focus is on services, not just physical labor—although that labor is still considered.

Principles Underlying Wage (Salary) Determination

Ijarah is a contract (transaction) for specific services with compensation. Wages are divided into two categories: (1) stated wages (*ajrun musamma*) and (2) commensurate wages (*ajr al-mitsl*). When stated wages are mentioned, they must be accompanied by both parties' willingness to agree on wages. Employers (*musta'jir*) must not be forced to pay wages greater than stated, and workers must not be forced to accept wages smaller than stated (an-Nabhani, 1996).

Commensurate wages (*ajr al-mitsli*) are wages commensurate with work and the employee simultaneously, if the *ijarah* contract mentions services. Commensurate wages are wages commensurate with workers' services if the *ijarah* contract mentions workers' services. The commensurate wage concept can also resolve disputes over wage levels (Salim, 1999).

The parties determining wages are solely those with expertise in wage determination—not the state; therefore, legislation or regional regulations are unnecessary. Experts use services, whether in the form of labor services or worker services, as the *ijarah* contract stipulates certain services. Therefore, the basis for estimating wages is services.

Wages should not be estimated based on workers' production output or based on the lowest living standard in a particular community. Determination is based solely on services, in accordance with experts' estimates of those services within society. Based on this, experts determine workers' wages by considering their service value within society. However, when experts determine commensurate wages, they must consider both work and worker, as well as time and place, because wages can vary based on differences in work, worker, time, and place.

Humans must depend on others' labor to meet all their needs. Individuals cannot produce everything they need through their own efforts and abilities. In other words, exchange with others' labor or property-for-property exchange is required. This exchange requires a standard determining the value of expended labor, linked to others' property and labor so exchange can

occur. There must also be a standard determining desired property value to achieve specific goals for exchange with other property or labor. Therefore, the standard determining labor and property value must be identical. This way, property can be exchanged for other property and labor, including labor for labor.

In goods exchange, the standard is compensation for the substance of goods, known as price. Meanwhile, in labor exchange, it is compensation for services rendered by humans. Therefore, wages should not be tied to price. Price is compensation for other assets, whether those assets are estimated at value or at a specific price, while wages (salary) are compensation for labor. Labor does not always produce assets, so it cannot be linked to existing prices. Factory workers receive wages as compensation for assets produced. However, doctors' wages are not compensation for specific assets because they do not produce assets. Therefore, estimated services from labor are not compensation for assets but rather compensation for services that can sometimes be assets or not. Therefore, prices should not be used to estimate wages. If determined by production price, wages can rise and fall with prices. Wages should not be lowered when selling prices of produced goods fall because workers' wages are compensation for their work services, adjusted to utility value as long as wages are determined between both parties. Conversely, wages should not be linked to workers' and families' living needs. If this is done, this concept prevents workers from achieving good and decent living.

Wages are estimated based on service levels provided by workers, not effort expended, even though services result from expended effort. However, estimated wages for these services are determined by experts according to service benefits. This estimate is not fixed but relates to an agreed-upon period or agreed work to be performed. This means that once the period ends or work is completed, new wage estimates can begin. Sometimes determination is by transacting parties; sometimes by experts explaining wages in fixed amounts (*ajr ul-mitsl*). Time periods can be daily, monthly, or yearly. Therefore, attempts to determine workers' wages with specific provisions, regardless of standard, are wrong and contrary to facts. Wages should be clear without specific limitations. Therefore, capitalist and socialist (including communist) views on wage estimates are incorrect and contrary to facts, and also cause damage to interpersonal relationships necessary for meeting needs.

Differences in estimating workers' wages can be traced to differences in understanding goods' value—specifically, the limits of goods' value. Capitalism defines value as equal to production expenditure, including time, energy, and raw materials. Goods' value is also adjusted based on scarcity. Another opinion states that something's value depends mainly on its utility—its ability to meet existing needs. Others argue that any good's value ultimately depends on effort expended to produce it; effort expended to produce production factors used in production activities is returned to it.

Wages can vary based on work differences and excellence levels in the same job. A person's wage level in a given job is solely determined by their service excellence or labor usefulness. This cannot be considered a bonus intended to increase productivity. Instead, it is simply wages they are entitled to receive because of service excellence. From this analysis, it is clear that no relationship exists between workers' wages and goods' value, including between workers' wages and production costs, or between workers' wages and their living standards. Instead, wages are

a separate phenomenon. Wages represent the amount of utility or service employers are entitled to receive from that utility. Therefore, the similarity in estimating workers' wages is the utility described by that description.

CONCLUSION

Findings indicate that the Islamic wage framework is structurally simple, defining wages solely as compensation for services provided. Unlike conventional theories, it excludes considerations such as living expenses, price volatility, or product market value. This principle-based approach positions wages as a contractual transaction, reducing ambiguity and minimizing risks of exploitation. Policymakers and industry leaders can leverage this model to design wage systems that prioritize fairness and transparency, offering an alternative to subsistence-based or productivity-linked compensation structures.

The findings have important theoretical and practical implications. Conceptually, the Islamic wage framework contributes to the discourse on economic justice by offering a normative alternative that emphasizes contractual clarity, mutual consent, and service valuation. Practically, this approach has the potential to reduce wage disputes by shifting negotiations toward individualized assessments of service value rather than generalized minimum wage standards. Furthermore, the application of this wage concept may serve as a practical guideline for Muslim entrepreneurs seeking to align labor relations with Islamic economic principles while fostering equitable employer–employee relationships.

Despite its contributions, this study remains limited by its conceptual and theoretical nature, as it does not empirically operationalize the Islamic wage framework or test its applicability across diverse labor markets. Future research should focus on elaborating service-based wage determination mechanisms, including distinctions between output-based services and benefit-based services, with the aim of developing practical and measurable wage determination guidelines. Additionally, empirical studies examining the implementation of Islamic wage principles in real-world business settings, particularly within Muslim-majority economies, would be valuable in assessing the feasibility, effectiveness, and broader socioeconomic impact of this proposed wage theory.

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