

The Role of Demand toward Employee's Wage Change: An Islamic Perspective

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Abstract

An employee must get a justice wage according their contribution to the company. But in reality, the employee get a stabil wage even in increasing of demand, and force them to receive a lower wage when the company in decreasing of demand. It's a kind of unjustify according the contribution that the employee have given. This study is the research literature. The data in this study are obtained by using the documentary method, to search for data about the role of demand on wage levels. These data are analyzed by using descriptive method of content analysis to determine the contents of the three variables. The role of demand toward employee wage change in Islamic economics can be explained from two forms. First, demand increase for shared and unshared, demand increase for shared than the employee will get the additional wage from increasing demand, demand increase unshared, then the employee will get the stable wage due to additional company's capital. Second, Demand decrease shared and unshared, demand decrease shared, then the employee will get the lower wage, decrease unshared, then the employee will get the stable wage caused the company should to reduce the company's capital by requirement the additional employee hard work.

Keywords: role of demand, employee, wage's change, Islamic Economics.

1. Introduction

The distribution of income between labors has been a continual source of social strife and political ferment. The last century witnessed pitched battles between labor and capital over wages, working conditions, and the right to organize.¹ In

¹ Paul A. Samuelson, William D. Nordhaus, *Economics*, (USA: Mc Graw Hill Irwin, 2001), 243

conventional economics, the aim of economies is to gain optimal utility; it can be done by consuming commodities or services from market mechanism, and enjoying leisure, such family picnic, playing games, etc. But the people find themselves in obstacle to fulfill their needs in according to gain optimal utility of their life. This condition happened because they have not additional money from their works.²

Demand theory explains the nature request the buyer of goods.³ Economic analysis assumed that the demand for certain goods mainly influenced by the price level. Those, in the theory of demand, which mainly analyzed the relationship between the number of request for an item with the price of goods. The analysis assumed that other factors unchanged (*ceteris paribus*). Law request is essentially a hypothesis if the price decrease, demand is increase, on the contrary, which if the price increase, demand is decrease.⁴ The increase of prices caused customers to find other items that are used as a substitute goods, by contrast, the decline in price will lead buyers to reduce purchases of other goods and increased purchases of these goods has decreased. On the seller, if prices increase then the seller's revenue decreases. If this happens then the seller will be bidding on the goods sold, called the law of supply. Bidding law is a statement explaining the nature of the relationship between the prices of goods and the amount of the goods offered by the seller.⁵

Interaction between supply and demand will determine the state of equilibrium in the market that is the situation where the public desire to buy is the same as the desire to sell goods producers. This balance will determine the level at the prevailing market price and quantity of goods to be traded and have produced. Changes in demand or supply will cause a change in a state of equilibrium. Changes in this balance will change the price level of goods traded quantity. In the current economy, the lives of employees are not so considered, when viewed from wage they receive. Wage is a payment received from the various forms of services provided by labor to entrepreneurs.⁶ The purposes of the wage are to get the

² P3EI, *Ekonomi Islam*, (Jakarta: Raja Grafindo Persada: 2010), 385.

³ Sadono Sukirno, *Mikro Ekonomi Teori Pengantar*, (Jakarta: Raja Grafindo Persada, 2009), 75.

⁴ P3EI, *Ekonomi*... 173.

⁵ Sadono Sukirno, *Mikro Ekonomi*... 84.

⁶ *Ibid.* 350.

employee with good quality than hold them, to motivate the employee, to increase the quality of human resources.⁷ The Qur'an uses several terms implying work: work, earning, to employ or utilize, wage or reward and seeking God's bounty or creating wealth.⁸ Employees are the inputs that have contributed the most when compared with other inputs (capital, machinery, equipment, etc.), so if a company or an entrepreneur who employs the employee get a benefit, which is caused by the hard work of the employees, it is proper when employees also get profit sharing from this profits. The biggest contribution in a production are employees, if employees do not receive wages in accordance with the contribution given, then this is the same with racketeering related to power and their contributions. Employee is human being than capital, equipment and machine is do not, which unable to make decision for spiritual and physical aspect.⁹ Profit in conventional view measured by material, but in Islamic economics profit means is blessing to gain welfare.

2. Labor Supply

Minimum wage is the lowest wage setting stance by the government that must be paid to workers who occupy the lowest positions in the rank structure prevailing position in an organization (company).¹⁰ In another definition mentioned the minimum wage is the wage rate set by government regulations concerning the smallest amount of wages to be paid by companies in certain areas.¹¹ It will be explained by pyramid below:

⁷ F. Winarni and G. Sugiyarso. *Administrasi gaji dan upah*. (Yogyakarta: 2006), 23. See also: Achmad S. Ruky, *Manajemen Penggajian dan Pengupahan untuk Karyawan Perusahaan*, Jakarta: Gramedia Pustaka Utama, 2006, 24 - 25

⁸ Urfan Ul Haq, *Economic doctrines of Islam*, (U.S.A: 1996), 93

⁹ *Ibid*, 358

¹⁰ Achmad S. Ruky, *Manajemen Penggajian dan Pengupahan untuk Karyawan Perusahaan*, (Jakarta: Gramedia Pustaka Utama, 2009), 191

¹¹ Solikin dan Imam Sugema dalam artikel yang berjudul *Rigiditas Harga-Upah dan Implikasinya pada Kebijakan Moneter di Indonesia*, 23

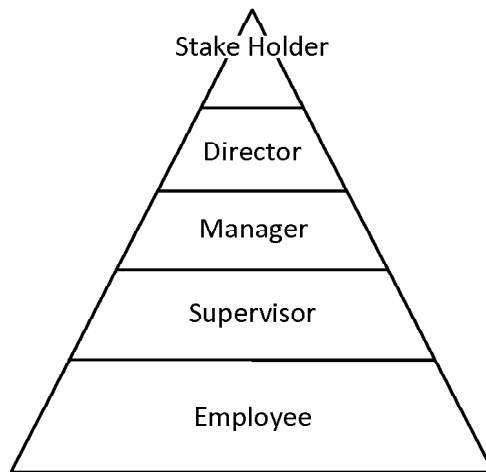


Diagram 1.1.: The Structure of Prevailing Position in An Organization

In macroeconomics discourse, labor supply associated with population and demographic conditions of employment offers typically calculated by working hours offered, it is necessary to analyze how individuals allocate time.¹² Time is the only absolute limitation given God and should be used by in humans as well as possible, because time is also an opportunity which if not utilized it will never return.. Conventional economic theory has a time allocation model using the analysis of utility maximization. Given the limited time (24 hours a day and a night), individuals must determine how many hours it will work. He will consume a variety of products sold in the market (TV, movies, eating, driving, etc.) and how many hours of sleep. By studying how individuals allocate time, economists can find out the decision to work or not to work.

A person has two choices in allocating time to the work in the labor market with a certain wage level or does not work at all. The first individual utility depends on consumption of goods and services that can be done as a result of the work (C) and second, the amount of leisure time available (H).¹³ For the utility maximization for the individual budget constraints must be analyzed. Suppose that is a one day working period, means the

¹² Jusmaliani, dalam artikel, *Mencari Solusi Tingkat Upah Islami*, 13 June 2010, 189

¹³ *Ibid*, 190.

individual will work as long (24-H) hours and if the hourly wage is W, then he would earn as much:¹⁴

$$C = W (24-H)$$

Each additional leisure time will reduce revenue by W, which means also opportunity cost of leisure is determined by the level of wages. Combination choice between work and leisure is affected by changes in real wage rates. If real wage level increase means prices will be increasingly expensive casual hours, because individuals must sacrifice more for each additional leisure time enjoyed. In this case the individual may be increasing or even reducing working hours.

From the individual decision for how many hours it will work and how many hours he will relax will cause the labor supply curve with positive slope. At the level of higher wage individuals choose to work longer. Substitution effect of high wages that beat earnings, but after reaching a certain level, high wages is no longer encourage individuals to buy more time to relax. Thus the income effect tends to reduce working hours. Islam strongly ordered individuals to manage their time optimally probably because this is the only limited resource given by God. Whatever is done must take time, so that Islam norms tell us to use time as good as possible and not wasting time, as a waste of time would be fatal to the individual.

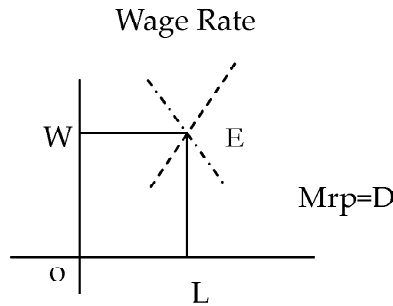
Muslim individual physical activities are limited visible on three things, ritual worship, work and rest. Rest absolutely done by sleep because this is the need of every human being. Normally, the individual Muslim in the world recognizes that its existence is to worship not to seek wealth or pleasure for him. However, with the pursuit of wealth individuals can do more charity, which means that worship can be improved especially with regard to one's neighbor as *zakât*, *infaq*, charity, child custody and so forth. In Islam, working is to get a noble. Physical state of human beings are not allowed to work for 24 hours straight, at least eight hours is the normal time for himself sleeping, eating and so forth. Prophet has ordered us to balance between work, worship and family rights.¹⁵ Not an option, for work or casual. It is also associated with a reward

¹⁴ *Ibid.*,

¹⁵ *Ibid.*, 193.

to be received not only in the world but reward in the hereafter but also later. By reducing the time for our own rights become for eight hours, then it becomes work only 16 hours a day and night.

Allocation of time in a more conventional if the review shows that the higher the per capita income and the more wealth a person who has a tendency to enjoy the pleasures of life more than the need to keep working. In aggregate labor supply is the total amount of work provided by the desire of all individuals who want to work there in the market. For this reason that caused what we know with backward bending supply curve.¹⁶ According to Islam, the higher the income of a person, the more chance for him to increase his worship. That means while allowing him he will continue to work, it means that in Islam it will never happen backward bending supply curve are like that happened performance conventional economic theory, by contrast labor supply curve shows only a positive slope, from left to right above.



Curve 1.1.: Labor Supply Curve

Input is a raw material input various services used in the production process¹⁷ inputs are categorized into non-human and human input. However, the author has submitted in the background that most human input value is equated with non-human input. Yet considering the importance of the human role in production factors, it is a usual man gets extra marks for his role as increase the output of one percent. Input demand is derived demand,¹⁸ the demand that arises is not by itself but a result of the

¹⁶ Backward Bending Supply Curve is a thesis that claims that as wages increase, people will substitute leisure for working.

¹⁷ P3EI, *Ekonomi...*, 394

¹⁸ *Ibid.*,

query output. For example, when the demand for clothing increases, then the demand for inputs, cotton, will also increase. Cotton here is as basic inputs or materials from the clothes. Determination of input prices is a very important, remembrance that human need to be discussed by the considering of contribution which they gave, in other words, wages for labor which a careful thought should be when this input contributes much to the increasing demand for output.

3. An Employee's Wage in Islamic Economic

Human resources in economics is treated as a production input, as one factor of production, with the services they provide, also modify other inputs (e.g. materials, capital) into outputs of goods and services. The treatment as one factor of production is in an extreme form of thought developed through scientific management, which focuses on how to make the work more efficient.¹⁹ According to the Islamic thought, Islam treats labor as a partner in the real production because humans have a dignity that is higher when compared with non-human input, it is very unfair if they were treated simply as a driving machine of production²⁰ According to Karl Marx's theory, which is contrary to Islamic theory, labor is the source of all value, then they are entitled to receive the results from the production process, while the lender and the owner does not work They only exploit this labor to own interest.²¹

Islam had a different view of this, which recognizes that the owners of capital and labor are partners in production, with a same role because humans are basically the same of. So in implementation of this theory, investors will not consider the labor only screws for the production. Within the scope of the company, if this theory is applied, then there will be no abuse and exploitation of labor. Distribution of company profits will be fairer and none of those who feel disadvantaged. That way will create a healthy working environment, which it will resurrect the spirit to always be active and in working, which the result of it is increasing the quality and quantity of production companies.

¹⁹ Jusmaliani, dalam artikel, *Mencari Solusi Tingkat Upah Islami*, accessed: 13 June 2010, 181.

²⁰ *Ibid*, 182.

²¹ *Ibid*, 182.

Not only on the discussion above, Islam had the concept in shaping the quality of labor. According to Islam, any attempt to develop human qualities requires the intervention of values, in addition to the values that have been brought by nature. Intervention values are mainly done through education, which includes physical, mind and heart. There are several dimensions of human qualities designated by Islam: (1) Dimensions of scholarship and devotion. According to Islam most precious person in God's sight is the godly people among others, and God will exalt who are knowledgeable. Because work by knowledge is more useful than without it. So, in choosing labor and impose wage to see to employees knowledge and the degree of devotion he had. (2) Personality dimensions that include the views and attitudes. In addition to knowledge and devotion, personality and outlook on life should also be considered, because the personalities here will greatly affect the quality of the work. For example, an employer would prefer and trust to the employees who are always honest, humble and not sly, in comparison with employees who are dishonest and underhanded. (3) Dimensions of creativity and productivity. Faith is the most important pillar in Islam. Muslim's faith can be seen from various aspects, from their worship to God, their *muamalah* with fellow human beings, their attitudes, words said, their thought and so forth. Work is one form of worship to God, therefore work required of all Muslims an employee who works well followed by faith, the job will be lighter and will get a reward from Allah, and will get the happiness in her life. (4) Dimensions of social consciousness. A Muslim should have a high social awareness, tolerance, and realize that they are social creatures who must also go to need help from others. Those there will be no existence of discriminatory and social inequality. If these four things are met, it will be materialized labor quality, so it can be useful also for the community.

4. Demand and Employee's Wage in Islamic Economics

Supply and demand is closely related to factors of production. In economics, every production process has a major element of the production system, there are input, process and output.²² Input is a

²² Endang Setyowati, dkk, *Ekonomi Mikro Pengantar*, (Yogyakarta : Sekolah Tinggi Ilmu Ekonomi YKPN, 2000), 81.

resource that used in production, the process is the way which used to produce a product, while the output is generated by products like the production process. So there is a linkage between these elements. The figure below will explain the relevance of input, process and output.²³



Scheme 1.1.: Production System

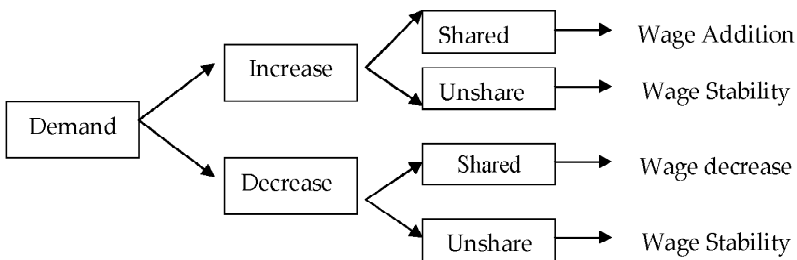
The existing of resources at the company in a production activity is limited. Therefore the company must be able to determine how to produce efficiently by existing resources, companies can generate maximum output. Or, to produce the maximum output is used minimum resources. While demand is the amount of goods that consumers demanded. If consumers have a lot of demand for a good (output), then the company will increase the number of the firm's output, automatically by adding this output, will affect the production process and affect to the increase in input. Input itself is divided into two, first, non-human inputs, the second, the human input.²⁴ For non-human input by adding the company will increase the number of inputs, but if the human input by adding the company will increase the number of employees or add to the hard work of employees. In addition employees, this is seldom done by the entrepreneurs, because with increasing of employees, it will add their obligation to provide wages to them. Those, the most widely used way are by adding the hard work of the employees who have been there. Those, Automation will get additional output according to demand, without having to raise the liability adds to the cost of human input. If consumer demand continues to grow, then corporate profits would also increase. And needs to realize, that these benefits are the result of the increased output. While output will unable to achieve an appropriate request without the contribution of inputs, especially human or employee input. When the price of a good rise then the demand for goods will fall, vice versa if the prices of goods go down, the demand will rise by "ceteris paribus" assumption.²⁵

²³ Ibid.,

²⁴ P3EI, *Ekonomi...*, 362.

²⁵ Ceteris paribus is assuming that other factors or other than price are considered constant. See: Iskandar Putong, *Economics Pengantar Mikro dan Makro*, (Jakarta: Mitra Wacana Media, 2007), 31

Islam very respect to the employees, because their struggle, energy and thought, can make the production of goods increasing. In their work, Islam also teaches to always conscientious and loved their job, since the goal of working not only to gain material benefits, but also to get a reward from God, because they assumed that the works are as worship to God. Rightly if demand increases, so the company gets the benefits, the right of employees to get wages for the results of their hard work. Similarly, when the company experienced a slump, then the employees must work harder. This is not another in order to create mutual understanding and creation of partnership relations between employees and employers, not the relationship between employers and employees.



Scheme 1.2.: the Relationship between Employees and Firms

Demand will increase and decrease, if firms has increased profits, and profits will be in shared to employees, then employees will get an additional reward for such increase. However, if profits are not distributed, due to additional capital, the wage employee is stable. If the demand is decreasing, then the company will get a loss, if the losses will be distributed then the employees receive low wages. However, if the company wants to provide a stable wages to employees, therefore the company should reduce the company's capital to be given to employees. Given the excellent relation and mutual support between employees and employers, there will be an optimal cooperation, which will facilitate their work in achieving the desired goal of welfare (*falah*). Then, the role of demand toward employee wage change in Islamic economic is to achieve the justice wage setting in order to gain the employee's welfare according by blessing and *maslahah*.

5. Closing

Employee wage is a payment to the worker after giving their service to the employers according their contribution by *masalahah and blessing*. Working in the view of Islam is not just a worldly activity, but it has a value of transcendence. Work is a means to seek a livelihood and for ingratitude towards God is given to the creatures. In economy there are wages differences among workers. The main factors are: (i) the nature of demand and supply each group of workers, (ii) the different types of work, (iii) differences in ability, education and experience, (iv) labor mobility, (v) rather than financial factors that affect the attitudes of workers in choosing a job, and (vi) some geographical and institutional factors. The role of demand toward employee wage change in Islamic economics can be explained from two forms. First, demand increase for shared and unshared, demand increase for shared than the worker will get the additional wage from increasing demand, demand increase unshared, then the worker will get the stable wage due to additional company's capital. Second, Demand decrease shared and unshared, demand decrease shared, then the worker will get the lower wage, decrease unshared, then the worker will get the stable wage caused the company should to reduce the company's capital by requirement the additional worker hard work.

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