

CHAPTER I

INTRODUCTION

A. Background

Indonesia is an archipelagic country in Asia with more than 16.771 islands listed on the National Gasetir in 2020. Indonesia's population in 2010 reached 38,88 million people and reached 270,20 million people in 2020 with an average population growth rate per year of 1,25%. Based on population, Indonesia is the country with the fourth largest population in the world after the United States in 2014. Meanwhile, Indonesia is the country with the third largest population in the category of developing countries after China and India. Based on Indonesia's population projections for 2010-2035, it is estimated that the number of Indonesians will increase every year. Population projections are scientific calculations based on the assumption of the components of the population growth rate, consisting of births, deaths, and immigration. The calculation of this assumption can be obtained from past data trends, factors affecting the population level component, and the relationship between these components and the targets to be achieved in the future.

The distribution of the population in Indonesia is currently uneven. Most of the population is located on Java Island. Based on population projections in 2010 there were 137,03 million people out of 238,51 million Indonesians in Java. In 2020 based on the results of the population census the population in Java Island reached 56,10% with the area of Java Island at 7% of all parts of Indonesia. The distribution

of the population on Java Island is accommodated in urban areas. In 2010 the population of urban areas reached 49,8% and increased to 53,3% in 2015. The growth rate of cities in Indonesia reaches an average of 4% per year. By 2025, it is estimated that 60% of Indonesia's population will be urbanized.

Table 1.1
Population and Population who working in the labor force 2015-2020

Year	Population (thousand)	Total Labor Force (thousand)	Population 15 years old and over who are working in the labor force (thousand)	Percentage of working population to Labor Force (percent)
2015	255,18	122,38	114,82	93,82
2016	258,70	125,44	118,41	94,39
2017	258,70	128,06	121,01	94,50
2018	265,06	131,01	124,01	94,66
2019	268,08	133,56	126,52	94,72
2020	270,20	138,22	128,45	92,93

Source: Statistics Indonesia 2015-2020

Table 1.1 shows data on the number of population and the number of workers increasing every year. Based on population projections in 2015 reached 255.18 thousand population with a labor force of 122.38 thousand population, in 2016 the population reached 258.70 thousand population with a labor force of 125.44 thousand population, in 2017 the population reached 258.70 thousand population with a labor force of 128.06 thousand population, in 2018 the population reached 265.06 with a labor force of 131.01 thousand population, in 2019 the population reached 268.08 with a labor force of 133.56 thousand population, and in 2020 based on the Indonesian Labor Force Survey (ILFS) the population reached 270.20 thousand population with a labor force of 138.22 thousand population. Based on

the number of workers aged 15 years and over who worked from 2015 to 2020 respectively were 114.82 thousand people, 118.41 thousand people, 121.01 thousand people, 124.01 thousand people, 126.52 thousand people, and 128.45 thousand people.

The increase in the labor force is without the increase in the number of workers working so that the percentage of the labor force that works against the labor force itself continues to increase. However, in 2020 the number of presentations of the employed labor force to the overall labor force decreased. This is due to the covid 19 pandemic which has an impact globally. According to Lee et al. (2020), this global crisis condition causes labor market distortions. In this condition, some workers are still employees but not working, workers lose their jobs, and reduce working hours. The pandemic has also had an impact on changing the type of work to informal labor. This puts informal workers at greatest risk of losing their jobs.

The population change from rural to urban communities is based on the community. The agricultural sector, which is the sector with the highest number of workers, has decreased in recent years, while the industry sector and services experienced an increase. Increased sector industry and services cannot fully absorb labor. The percentage of labor in the agricultural sector has decreased by 20% in 30 years, but the increase in the industrial sector has increased by 1,8% in 30 years. This change means that the industry sector has not been able to develop well nationally to absorb labor. (Hasibuan, 2017)

An increase in population without an increase in labor opportunities increases unemployment. In the post-industrial economic era, human resources are needed to increase economic activity. The main problem of human resources in Indonesia is the different levels of education and skills. Differences in education and labor skills lead to unmet labor demand. Based on the highest education completed at primary school are 2,7 million people greater than the diploma education level of 3,4 million people in 2010. However, there was an increase in the labor force of university graduates in 2010 from 5,9 million to 8,2 million in 2014. This increase can also be seen from the mean years of schooling which in 2010 was 7,92 years or equivalent to the second grade of junior high school not graduated to 8,89 years old or equivalent to the third grade of junior high school has not graduated.

Table 1.2
Data of Mean Years of Schooling, Investment, Provincial Minimum Wage,
and Government Expenditure in Indonesia 2015-2020

YEAR	MEAN YEARS OF SCHOOLING (year)	INVESTMENT (BILLION rupiah)	PROVINCIAL MINIMUM WAGE (rupiah)	GOVERNMENT EXPENDITURE (million rupiahs)
2015	7.84	560149,1	1.790.342	277,596
2016	7.95	1285541	1.997.819	297,851
2017	8.1	693849,5	2.142.855	349,612
2018	8.17	746142,1	2.268.874	370,945
2019	8.34	785544	2.455.662	396,056
2020	8.48	831272,7	2.672.371	371,745

Source: Statistics Indonesia 2015-2020

The data in table 1.2 shows an increase in the mean years of schooling. The increase in the mean years of schooling itself affects the human development index. The assessment of the human development index through the knowledge dimension

is assessed based on the mean years of schooling and the expected years of schooling. The expected years of schooling are calculated based on student participation from the age of 7 years, while the average length of schooling is calculated from the age of 25 years and more. The progress of mean years schooling is slower than the expected years of schooling. The increase in the mean years of schooling indicator is marked as positive because it shows the success of the education program in the long term (Statistic Indonesia, 2015).

Education has an important role to improve the quality of human resource development. The role of education also helps to improve the mobility and adaptation of human resources to meet labor demand so that the workforce can show high economic performance (Herman, 2012). For this reason, education and training are important.

Riddlell and Song (2011) revealed that education so far is not a primary need but a tertiary need. This condition can affect the demand of the labor market in absorbing educated labor. Education not only impacts individuals socially, but can affect income, improve the environment, reduce crime rates, and improve health. But it does not rule out the possibility that an increase in the level of education will not reduce unemployment. In addition to the challenges to making education a primary need, the equitable distribution of the quality and quality of education needs to be improved. Education in eastern Indonesia and western regions is different. This condition must be resolved so that the quality of the existing work is evenly distributed. (Allen, 2016)

The difference in education can affect the type of work received by the workforce. In developing economic theory, the higher the education obtained, the higher the probability of getting a job. According to Mincer (1991), there are three advantages of educated workers: higher wages, higher mobility in employment, and security over employment. There is no denying that there are unemployed graduates of higher education, but higher education attracts more labor demand than low education. In other studies, it is said that education does not guarantee a preferred job (Pages and Stampini).

The challenges faced are not only creating a workforce with higher education, critical and skilled workers are needed. According to the World Bank Survey of employers in 2008, two out of three surveys found it difficult to find a professional workforce at the manager level. At the level of education in Indonesia, high school graduates are higher than university graduates. In 2015, according to Allen (2016), 51% of the labor force had skills below the job position, 40% had a match between skills and jobs, and 8.5% had skills exceeding the job position. The cause of the incompatibility between labor and type of work is the low education of production workers and agricultural workers, as well as staff employees who have the ability to exceed the type of work owned. This condition causes low development of worker productivity and hinders economic growth.

Efforts to absorb labor are not only carried out by improving the quality of resources, other factors are needed to maximize employment. The second factor that can affect the labor force is an investment. Investment is one of the factors that

encourage job creation. Investment might increase production capacity. This production capacity will encourage an increase in production factors. According to Feldstein (2000) and Razin and Sadka (2001) competition in the domestic input market is becoming more competitive with increasing foreign investment. Foreign investment contributes to improving the quality of human resources, because recipients of foreign investment workers receive employee training in running their businesses.

Indonesia is a destination for foreign investment due to the number of populations of the young labor force, strong demand, political conditions, abundant natural resources, and macroeconomic policies which is good. The Government of Indonesia established a National Medium-Term Development Plan for 2015-2019 by establishing nine programs to enhance sustainable development. To encourage the development of the manufacturing sector that integrates with industry 4.0 technology, the government encourages ten strategic strategies, one of which is to attract foreign investment. The purpose of this strategy is to improve domestic technology and technology transfer.

Foreign investment increases capital so that it can increase productivity, improve decent living standards, create jobs, and improve technology. In addition, foreign investment also encourages a more inclusive work environment and energy efficiency.

The government has contributed to efforts to increase labor participation through fiscal policies implemented through government spending. According to

Muammil (2018), government spending affects the workforce but has no effect on unemployment. However, according to Zulhanafi et al. (2018), government spending has an impact on unemployment. If the government increases capital expenditure on infrastructure, there will be an increase in production. An increase in output will increase production factors, one of which is labor. The government's decision to determine to spend can lead to unemployment if funds are allocated to create jobs rather than to productive expenditure. Low employment in the government sector has an impact on the availability of jobs in the private sector. This condition will increase the unemployment rate (Nempram *et. al*)

The last factor is the regional minimum wage. The regional minimum wage itself is a certain nominal amount set by local governments to regulate the minimum wage of workers. This minimum wage arrangement is related to the employment statement contained in the 1945 Constitution Article 27 paragraph 2 which states "Every citizen has the right to work and a decent livelihood for humanity". This article can be interpreted to mean that every citizen regardless of religion, race, or ethnicity has the right to work for his survival. This is also supported by the establishment of a Regional Minimum Wage to ensure every citizen gets a decent wage. This wage regulation also prevents employers' monopoly on providing wages to workers.

According to Comola and De Mello (2011), an increase in the minimum wage leads to an increase in informal labor and a decrease in formal labor. This research hthe as same staasnt with Hohberg and Lay (2015), the minimum wage

affects formal workers but has no significant effect on informal workers. The minimum wage benefits formal labor participation, but cannot replace economic growth and investment in education to improve wages and well-being in the informal sector.

Meanwhile, according to Marginea and Chenic (2013), the increase in the minimum wage of labor is being discussed in the literature, however there are three main underlying reasons: geographical, demographic, and sectoral specificities related to the business cycle. Therefore, this study took a case study in Indonesia to prove the impact of minimum wage on labor absorption.

According to Terrell (2005) skills and abilities have an important role to determine the amount of salary received but the minimum wage has no effect on the labor force. Research conducted by Lemos (2009) also showed the same result of no influence on labor and the minimum wage. However, research conducted by Suryahadi et. al (2001) explains that based on economic research there is a positive relationship between labor and the minimum wage, but according to statistical research there is no relationship between the minimum wage and labor.

Work is an economic activity that a person undertakes to earn a salary or profit for at least one hour a week. According to Miskahuddin (2021) work is an obligation for every Muslim given to Allah Almighty. The definition of noble work in the perspective of the Qur'an is a pure and lawful work that is valid according to religion when a person gets sustenance and is used sparingly and meticulously, not wasteful and redundant and adapted to the basics of life as a human being who has

faith and piety in Allah Almighty. Working for Muslims is mandatory as Allah has conveyed through Al- Hud verse 6.

﴿ وَمَا مِنْ دَابَّةٍ فِي الْأَرْضِ إِلَّا عَلَى اللَّهِ رِزْقُهَا وَيَعْلَمُ مُسْتَقَرَّهَا
وَمُسْتَوْدَعَهَا كُلٌّ فِي كِتَابٍ مُبِينٍ ﴾

Means:

"And there is not an animal on earth but it is God who gives its sustenance, and he knows the dwelling place of the beast and the place where it is stored. Everything is written in the real Book (Lauh mahfuzh)."

In essence, man has two components in life, namely spiritual and physical. Physical needs can be met with clothing, food, and board, while spiritual needs are met with science and morals. Islam as a universal religion of rahmatanlil'alamin regulates the physical and spiritual needs of man completely. Islam as a religion of mercy for all nature, has been perfected by Allah all its teachings which are a favor for man when practicing it correctly with the totality of all his teachings that Allah Almighty has preached. As explained by Allah, in His Word Q.S. Al-Maidah, (5):3.

حُرِّمَتْ عَلَيْكُمْ الْمَيْتَةُ وَالْدَّمُ وَلَحْمُ الْخِنْزِيرِ وَمَا أُهْلَ لِغَيْرِ اللَّهِ بِهِ وَالْمُنْخَنِقَةُ
 وَالْمَوْقُوذَةُ وَالْمُتَرَدِّيَةُ وَالنَّطِيحَةُ وَمَا أَكَلَ السَّبْعُ إِلَّا مَا ذَكَّيْتُمْ وَمَا ذُبِحَ عَلَى
 النُّصَبِ وَأَنْ تَسْتَقْسِمُوا بِالْأَزْلَمِ ذَلِكُمْ فِسْقٌ الْيَوْمَ يَئِسَ الَّذِينَ كَفَرُوا مِنْ
 دِينِكُمْ فَلَا تَخْشَوْهُمْ وَاخْشَوْنِ الْيَوْمَ أَكْمَلْتُ لَكُمْ دِينَكُمْ وَأَتَمَمْتُ عَلَيْكُمْ
 نِعْمَتِي وَرَضِيْتُ لَكُمْ الْإِسْلَامَ دِينًا فَمَنْ اضْطُرَّ فِي مَخْصَصَةٍ غَيْرِ مُتَجَانِفٍ
 لِإِثْمٍ فَإِنَّ اللَّهَ غَفُورٌ رَحِيمٌ

It means : "It is forbidden for you (to eat) carcasses, blood, pork, and (animal meat) slaughtered not upon Allah, the choked, the beaten, the fallen, the horned, and the beasts, except those whom you slaughter. (Prohibited) what is slaughtered for idols. (Demikian) voted for fate with azlām (arrow), (because) it was an act of wickedness. On this day the unbelievers have despaired of your religion. Therefore, do not fear them, but fear me. On this day I have perfected your religion for you, I have sufficient my favor for you, and I have made Islam as your religion. So who is compelled to be hungry, not because he wants to sin, indeed, Allah is Forgiving and Merciful."

In Islam, the performance and guidance have been explained through the hadith and the Quran. The guidelines can be used around the clock and do not change. A Muslim should follow the rules and stay away from prohibitions in order to get the favors of the world and the Hereafter.

Based on the presentation above, the author formulated the title, "The Effect of Education, Investment, Provincial Minimum Wage, and Government Expenditure in Indonesia in 2015-2020".

B. Research Questions

Based on the background of the existing problem, it can be formulated research problems such as:

1. How does education affect labor absorption in Indonesia?
2. How does an investment affect labor absorption in Indonesia?
3. How does provincial minimum wages affect labor absorption in Indonesia?
4. How does government spending affect labor absorption in Indonesia?
5. How does education, investment, provincial minimum wages, and government expenditure affect labor absorption in Indonesia?

C. Research Objectives

Based on the questions above, the objectives of this study are as follows:

1. To determine the effect of the provincial minimum wage on labor absorption.
2. To determine the effect of education on labor absorption.
3. To determine the effect of investment on labor absorption.
4. To determine the effect of government expenditure on the labor absorption.
5. To determine the effect of the provincial minimum wage, education, investment, and government expenditure on labor absorption in Indonesia.

D. Research benefits

This research was conducted with the aim of providing benefits such as:

1. The benefit of research conducted for policymakers or government agencies is to make the results of this research a consideration for policymakers in deciding a policy, as well as providing additional information.
2. This study aims to provide knowledge and information to researchers who will conduct research with the same or similar objects. This study can be used as a reference.