

CHAPTER I

INTRODUCTION

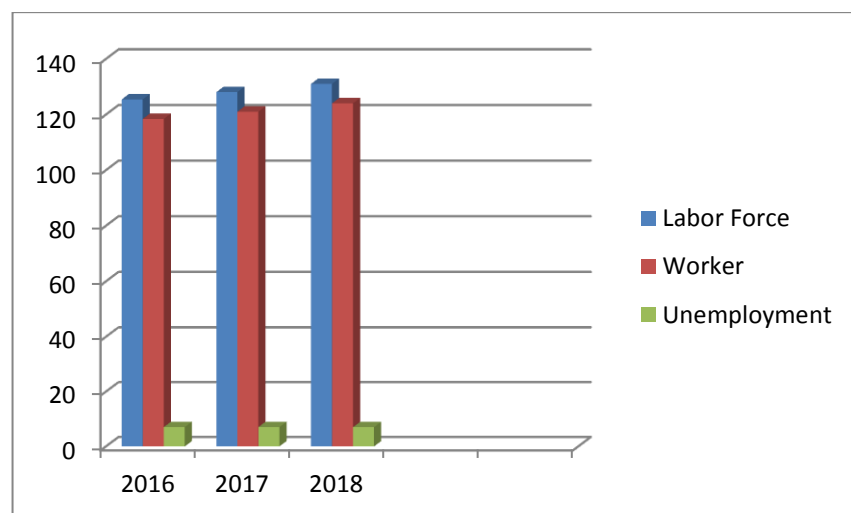
A. Research Background

Indonesia as a developing country is inseparable from labor-related problems. The labor problem facing Indonesia is the rapid increase in the number of the workforce. The Central Bureau of Statistics (BPS) recorded the number of the workforce in February 2018 of 133,94 million people, increased 2,39 million compared to February 2017. An increase in the labor force showed an increase in labor supply in the market, but increased labor offers were not accompanied with the demand for workers who are able to absorb the labor force. This is indicated by the high unemployment rate in Indonesia.

Indonesia is a developing country that is trying to improve the national economy in order to improve the welfare of its people. Yet employment opportunities in Indonesia are not comparable with the rate of population growth which causes high unemployment and stunted development. One indicator of the country's development is the existence of human resources supported by the availability of natural resources. The population itself has an important role in the implementation of national development, especially workers who have quality that are able to assist in

carrying out national development. Therefore, efforts to expand employment are most needed, so that a comprehensive and integrated

Policy is needed to expand employment opportunities that involve various aspects such as directing investment, development oriented to expanding employment and creating sustainable employment. Employment opportunities, quantity, and quality of labor are also important indicators in economic development because they have an important function in development, namely labor as a resource that carries out the process of production and distribution of goods and services, and labor as a target for reviving and developing markets.



Source : bps.go.id

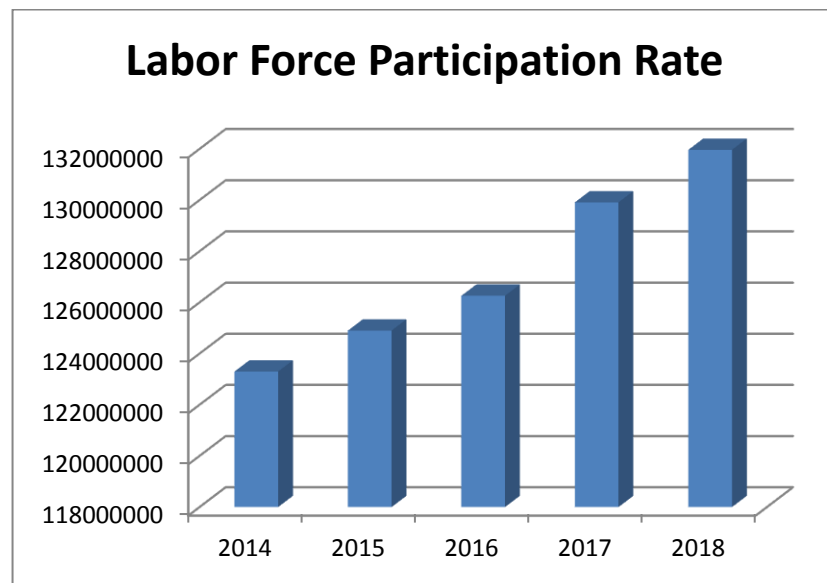
Figure 1.1

Labor Force, Employed, Unemployment

Based on Figure 1.1 illustrated the labor force, working population and unemployment in Indonesia. The data show that the number of employed people has increased and the number of unemployed from 2016-2018 has decreased significantly. However, based on the data above, the

increase in the number of employed people was followed by an increase in the number of the workforce, causing a high number of unemployed people. It means that the government still has to do some policies related to reduce the number of unemployed, including increasing the number of jobs. Job creation is related to the amount of investment in Indonesia.

To find out the picture of an economically active population, the Labor Force Participation Rate is an indicator that can explain it. Labor Force Participation Rate is a ratio of the ratio of the total population included in the workforce category to the population in the working age category (15 years and over). The population belongs to the workforce is the working age population (15 years and over) who work, or have work but are temporarily unemployed and unemployed. People who are not in the workforce are working age population (15 years and over) who are still in school, taking care of the household or carrying out other activities other than personal activities. The higher Labor Force Participation Rate shows that the higher supply of labor supply is available to produce goods and services in an economy.



Source : bps.go.id

Figure 1.2

Labor Force Participation 2014-2018

Figure 1.2 explains the level of labor force participation in Indonesia in 2014-2018. The figure shows the labor force participation rate in Indonesia increases every year.

Based on data from the Investment Coordinating Board (BKPM), private investment consisting of Domestic Investors and Foreign Investors is an investment that is very instrumental in absorbing labor. Foreign investment is an investment with the highest employment absorption rate when compared to domestic investment. That is because foreign investment is more labor intensive compared to capital intensive.

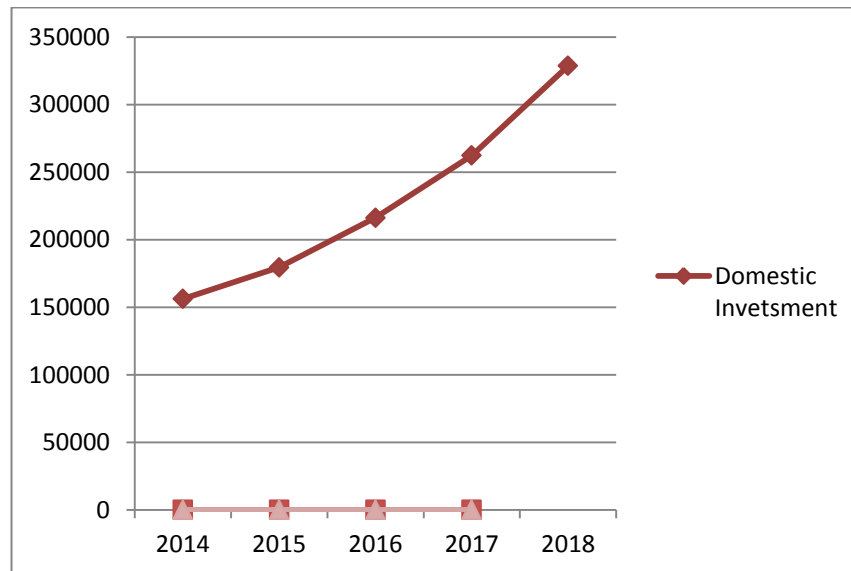
Investment is as an expenditure or expenditure for investors or companies to buy capital goods and production equipment to increase the

ability to produce goods and services available in the economy. Investments are all forms of investment activities, both by domestic investors and foreign investors to do business in the territory of Indonesia. According to Sukirno in Putra (2012) Consumer behavior (Household) in spending their income is different from investors or entrepreneurs. That is because consumers will spend all of their income to buy goods and services needed, while for investors the purpose of investing is not to meet their needs but to seek maximum profits.

According to Safine (2011) Investment will encourage the emergence of production processes, one of which is produced by humans. So, there is a close relationship between investment and employment opportunities, which means that if there is investment in an area, it will produce production where labor is needed to obtain it. With the existence of production activities, job opportunities will be created that will increase the people's income.

Job creation is closely related to private investment. Foreign investment plays a very important and positive role for the progress and prosperity of a country. Many countries rely on foreign investment to solve economic problems such as poverty, job creation and so on. Foreign investment will create capital accumulation that is used to build new businesses or make improvements to existing businesses. This will provide benefits as increasing the rate of absorption of domestic labor, increasing

individual income, reducing poverty, increasing income per capita and driving the pace of economic growth (Haroon, 2011).



Source : bps.go.id

Figure 1.3

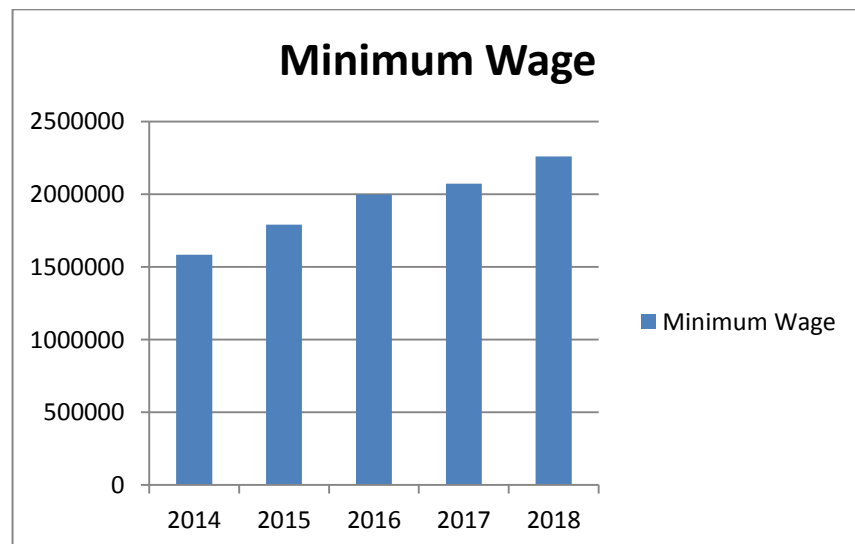
Domestic Investment in Indonesia (million US \$)

Based on Figure 1.3 above, it shows changes in the level of investment that has increased from year to year. This of course affects the absorption of labor. As seen in the picture above, in 2014 the value of domestic investment of 156126,3 million US\$ increased to 179465,9 million US\$ in 2015. It can be assumed if the employment of domestic workers has increased.

One of the government's efforts to increase the workforce is through the wage system in the form of minimum wages. The definition of

wages according to the Labor Law No.13 of 2000, Chapter I, Article 1, Paragraph 30 is the rights of workers / laborers received and expressed in the form of money in return from employers or employers for workers / laborers who are determined and paid according to an employment agreement, agreement, or legislation including benefits for workers / laborers and their families or a work and / or service that has been or will be done.

In economic development the recognition of a minimum standard of living includes not only the creation of jobs, but also the creation of wages that meet the standard of living needs in the community (Leigh, N.G. and Blakely, 2016). The impact of minimum wages on labor absorption continues to be a major focus in research on the labor market.



Source : bps.go.id

Figure 1.4

Minimum Wage in Indonesia

Based on the picture above, it explains that the Minimum Wage rate continues to increase every year. It is expected that the increase in wages will encourage labor force participation to increase, but according to Keynes's theory, if labor wages move flexibly up or down and react quickly and rationally to changes in wages will automatically return full employment. Yet in reality full employment automatically will not work. The government must play an active role in bringing the economy to full employment.

According to Septian (2008) education has an important role in development, good education will contribute to brand welfare. The higher level of education a person will have an effect on the opportunity to get better income. This encourages companies to look for workers who are higher than their education, so that companies can increase their productivity levels, which can cause companies to reduce less productive workforce. This has an impact on the reduced level of participation of the Indonesian workforce, this is due to the Indonesian workforce having low skills.

In the administration of government, the local government prepares a budget which is then used as a guide in carrying out its various activities. A government budget is a type of plan that describes a series of actions or activities expressed in terms of rupiah figures for a certain period of time. Budgets in Regional Government are commonly referred to as Local Government Budgets (APBD). All regional government revenues and

expenditures in the form of money, goods and services in the fiscal year concerned must be described in the APBD. APBD is a unity consisting of regional income, regional expenditure and regional financing.

The problem faced by local governments in public sector organizations is about budget allocations. Budget allocation is the sum of fund allocations for each program. With limited resources, local governments must be able to allocate the revenue obtained for productive regional expenditure. Regional expenditure is an estimate of the regional expenditure burden that is allocated fairly evenly so that it can be enjoyed by all groups of society without discrimination, especially in the provision of public services. So far, local governments have used more regional income for operational expenditure needs rather than capital expenditure.

Capital expenditure is a form of regional government expenditure whose mandate exceeds one fiscal year and will increase regional assets or wealth and subsequently will add to routine expenditures such as maintenance costs in the general administration expenditure group. An expenditure is categorized as capital expenditure if first, the expenditure results in the acquisition of fixed assets or other assets that increase the life span, benefits and capacity. Second, these expenditures exceed the minimum cap of asset or other capitalization set by the government. Third, the acquisition of fixed assets is not intended to be sold. (Samsiah, 2016). According to Badrudin (2012) states that factors that influence capital

expenditure include growth in income per capita, technological changes, population changes, relative costs and urbanization

In improving the quality of public services, local governments should change the composition of spending. During this time the area is more used for routine spending that is less productive. According to Saragih (2003) states that the use of spending should be allocated to productive things, for example to carry out development activities. In line with the opinion, according to Stine (1994) states that government revenue should be more for public service programs. These two opinions mean the importance of allocating spending for the public interest. In this case the regional government must maximize so that the APBD funds can meet the public sector, so that the industrial sector will be able to open more new jobs in accordance with the ability of a region to absorb local labor for the benefit of the region and increase the welfare of the community.

Based on the description above, the author seeks to conduct research under the title **"Analysis of Factors Affecting the Level of Labor Force Participation Rate in 2016-2018 period "**

B. Limitation of Problems

Limitation of the problem is needed in this study so that the topics discussed are more specific. Limitation of the problem in this study as follows:

1. Labor Force Participation Rate (TPAK) as the dependent variable, while Foreign Investors (PMA), Domestic Investors (PMDN), Provincial Minimum Wages (UMP) and Regional Government Capital Expenditures are independent variables in all provinces in Indonesia.
2. Period of Labor Force Participation Rate, Foreign Investors, Domestic Investment, Provincial Minimum Wages and Regional Government Capital Expenditures for 2016-2018 .
3. Dependent Variable Labor Force Participation Rate (TPAK), Independent Variable Foreign Investors (PMA), Domestic Investors (PMDN), Provincial Minimum Wages (UMP) and Regional Government Capital Expenditures.

C. Research Questions

The research questions trying to be answered in this research are :

1. How does the influence of Foreign Investors (PMA) on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period ?
2. How does the influence of Domestic Investor (PMDN) on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period ?

3. How does the influence of Provincial Minimum Wage (UMP) on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period ?
4. How does the influence of Regional Government Capital Expenditures on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period ?

D. Research Objectives

Whereas this research has objectives as follow :

1. To analyze the effect of Foreign Investors (PMA) on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period.
2. To analyze the effect of Domestic Investor (PMDN) on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period.
3. To analyze the effect of Provincial Minimum Wage (UMP) on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period.
4. To analyze the effect of Regional Government Capital Expenditures on the Labor Force Participation Rate (TPAK) in Indonesia 2016-2018 period.

E. Research Benefit

Last but not least, the author hopes that this research might given benefit both for the academics and othe researchers.

1. For Academics, it can be used as a means to add information and insight to students of the Universitas Muhammadiyah Yogyakarta in the field of science, and become a reference for further research.
2. For researchers, this research is expected to increase knowledge and writing abilities about research.