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Determinants Of Labor Absorption in Eastern Indonesia

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ABSTRACT

This study aims to determine and analyze the effect of government spending, minimum wage and investment on employment through economic growth in Eastern Indonesia. This study uses secondary data obtained from the Central Statistics Agency (BPS), the Investment Coordinating Board (BKPM) and the Directorate General of Fiscal Balance (DJPK). The data used is panel data consisting of 13 Provinces in Eastern Indonesia (KTI) in 2012-2021. The data analysis method used is the Structural Equation Model (SEM). Based on the results of this study indicate that government spending has a negative and insignificant effect on employment through economic growth. While the minimum wage has a negative and significant effect on employment through economic growth and investment has a positive and significant effect on employment through economic growth in Eastern Indonesia (KTI).

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INTRODUCTION

Periodic increase in population from time to time can certainly encourage or hinder economic growth. If the population increases, the production capacity of an area will also increase. However, on the other hand, the large number of population will hinder economic development, if the increase is not balanced between the number of population and the available employment opportunities, this will certainly trigger a higher unemployment rate in a country.

Moreover, the availability of jobs is only centered on certain regions in Indonesia. In the past, the results of development were more concentrated on the island of Java, so that the island of Java became more advanced compared to other regions in Indonesia, and in the end a sharp imbalance in the economic structure arose between the island of Java and outside Java. When classified by region, the regions in Indonesia can be divided into the Western Regions of Indonesia (KBI) and the Eastern Regions of Indonesia (KTI). Regions belonging to the Western Region of Indonesia (KBI) are developing relatively fast compared to the Eastern Region of Indonesia (KTI), so that it has an impact on the level of welfare of the people in the region. So this is what makes a very big difference in relatively poor regions, especially Eastern Indonesia (KTI).

The low level of employment is also one of the factors causing inequality in Eastern Indonesia (KTI). This is what certainly causes developed regions to be more advanced with better quality human resources compared to other regions. The impact on the uneven distribution of labor is due to disparities in development and wage rates in KBI and KTI which have led to employment problems such as unequal job growth, massive migration of workers from KTI to KBI and high unemployment in various regions. Indonesian territory.

In national development planning, Eastern Indonesia (KTI) has always received special attention from the central government. Various policies have been carried out by the government to overcome labor problems in Indonesia but have not been able to create equal distribution of growth in employment opportunities (Kasau, 2016). Seeing that the KTI area is so vast coupled with the abundant wealth of natural resources, it is very ironic if the KTI region is underdeveloped and the level of people's welfare in the region is low.

Economic growth without being accompanied by additional employment opportunities will result in inequality in the distribution of the additional income (cateris paribus), which in turn will improve a condition of economic growth with poverty alleviation (Tambunan, 2011).

Government spending is also used for other productive activities such as capital expenditures for infrastructure development, as well as other infrastructure that will facilitate the production process, and will create a multiplier effect on other economic sectors. This of course can be caused by an increase in government spending which stimulates the economy and can create new jobs and reduce unemployment. Increasing capital plays an important role in improving the economy and creating jobs that can absorb the increasing number of the workforce (Todaro, 2013).

In addition, another thing that affects the absorption of labor is the establishment of a minimum wage. In reality, the wages received by workers in most provinces are lower than the Decent Living Needs (KHL). So that there will be an increase in prices and in turn will result in an increase in the need for decent living which in turn will increase the minimum wage. So that from this problem of determining wages, labor disparities arise in each province in Indonesia. This happens because the minimum wage in certain areas is higher than in Eastern Indonesia (KTI), which causes workers to choose to migrate to areas with much higher wages. This labor migration can later make the number of workers who offer their services increase in certain areas. With the minimum wage that has been set by the government, it will have an impact on jobs that cannot absorb the workforce.

Furthermore, employment is also influenced by several factors, one of which is through investment support. With the encouragement of investment, regional development is expected to run smoothly so that cooperation and support from the government and the private sector are needed in development. The size of investment in an area greatly affects the level of output produced. An increase in the amount of output in a region indicates that there is an increase in the rate of economic growth.

Disparities in employment that occur in certain areas in the Province of Indonesia will cause employment problems. This condition certainly illustrates that Eastern Indonesia (KTI) has not been able to absorb labor optimally. So this problem is the basis for the author to conduct a study on how government spending, investment and wages affect employment and economic growth in Eastern Indonesia (KTI).

RESEARCH METHOD

This study uses secondary data in the form of panel data consisting of time series data from 2012 to 2021 and cross section data consisting of 13 Provinces in Eastern Indonesia (KTI). Data was collected by means of a literature study (Library Research). The data analysis method used for this research model is SEM Analysis (Structural Equation Model) using Amos software.

RESULTS AND DISCUSSIONS

Result

Table 1. Estimation Results of Economic Growth and Labor Absorption Functions

Direction of Influence between Variables	Koefisien Regresi	*t-Statistic*	Probability
$X_1 \rightarrow Y_1$	-1.208	-1.504	0.133
$X_2 \rightarrow Y_1$	-3.691	-2.821	0.005
$X_3 \rightarrow Y_1$	0.816	2.692	0.007
$Y_1 \rightarrow Y_2$	-0.027	-2.229	0.026
$X_1 \rightarrow Y_2$	0.133	1.176	0.239
$X_2 \rightarrow Y_2$	-0.611	-3.259	0.001
$X_3 \rightarrow Y_2$	0.277	6.379	0.000

*) Signifikan pada α = 5%
R^2Y_1 = 0.137; **R^2Y_2 = 0.323**; N = 10

The direct effect of government spending on labor absorption shows an insignificant effect (t value is 1.176 and the coefficient value is 0.133). This indicates that any change in the government spending variable will not affect changes in labor absorption. This result is not in accordance with the initial hypothesis which states that government spending has a positive and significant effect on employment.

The indirect effect of government spending on employment through economic growth shows an insignificant effect overall with a coefficient value of -0.03169 (-1.187479 x 0.026686). The effect comes from the insignificant relationship between government spending and economic growth (t value of -1.520378 and coefficient value of -1.187479). This indicates that any increase in government spending will not affect employment through economic growth. This result is not in accordance with the initial hypothesis which states that government spending has a positive and significant effect either directly or indirectly on employment through economic growth.

Furthermore, the direct effect of the minimum wage on labor absorption shows a negative and significant effect (t value of -3.259 and coefficient value of -0.611). This means that every 1 percent increase in the minimum wage will cause employment to decrease by -0.611. On the other hand, every 1 percent decrease in the minimum wage will increase employment by 0.611. This result is in accordance with the initial hypothesis which states that the minimum wage has a negative and significant effect on employment.

Meanwhile, the indirect effect of the minimum wage on employment through economic growth shows a negative and significant overall effect with a coefficient of 0.099657 (-3.691 x - 0.027). This influence comes from a significant relationship between the minimum wage and economic growth (t value of -2,821 and a coefficient value of -3,691 which is then continued with a negative and significant relationship between economic growth and employment (t value of -2,229 and coefficient value of -2). 0.027).

This means that every 1 percent increase in the minimum wage will reduce economic growth by -3,691 percent. Increased economic growth will reduce employment by 0.099657 (-3.691 x - 0.027) percent. Conversely, a 1 percent decrease in the minimum wage will increase economic growth by 0.099657 (-3.691 x -0.027) percent. These results are consistent with the initial hypothesis which states that indirectly the minimum wage has a negative and significant effect on employment through economic growth.

Then, the direct effect of investment on employment absorption shows a positive and significant influence (t value of 6.379 and coefficient value of 0.277). This means that every 1 percent increase in investment will increase employment by 0.277 percent. Conversely, every 1 percent decrease in investment will increase employment absorption by 0.277 percent. These results are consistent with the initial hypothesis which states that investment has a positive and significant effect on employment.

Meanwhile, the indirect effect of investment on employment through economic growth shows a positive and significant overall effect with a coefficient of -0.022032 (0.816 x -0.027). This influence comes from a significant relationship between investment and economic growth (t value of 2,692 and a coefficient value of 0,816) which is then continued with a negative and significant relationship between economic growth and employment (t value of -2,229 and coefficient value of -0,027) .

This means that every 1 percent increase in investment will increase economic growth by 0.816 percent. A 1 percent increase in economic growth will increase employment by -0.022032 (0.816 x -0.027) percent. Conversely, a 1 percent decrease in investment will increase economic growth by 0.816 percent. A 1 percent decrease in economic growth will reduce employment by 0.022032 (0.816 x -0.027) percent. These results are consistent with the initial hypothesis which states that investment has a positive and significant effect on employment through economic growth.

Then, there is an effect of economic growth on employment with a coefficient value of -0.027. This shows that every 1 percent increase in economic growth will increase 0.027 percent in employment. This is not in accordance with the initial hypothesis which states that economic growth has a positive and significant effect on employment.

Discussion

a. Analysis and Implications of the Effect of Government Expenditure on Labor Absorption through Economic Growth

Based on the estimation results, the findings of this study indicate that government spending indirectly has a negative and insignificant effect on employment through economic growth. This means that the greater the government spending it will not affect economic growth and employment. Changes that occur in government spending in this case capital expenditures do not affect economic growth and employment in KTI.

This is in line with research conducted by Alfisyahrin (2021) which states that government spending does not have a significant effect on economic growth, followed by an insignificant effect of economic growth on employment. The size of government spending does not have an impact on the value of economic growth which in the end will not affect employment. This can happen because government spending in this case capital expenditure does not touch the productive sectors which are more labor-intensive. Therefore, the increase in government spending does not affect the absorption of labor.

Therefore, the implication of this research is that the central government should continue to pay attention to capital expenditures, both in terms of quantity and quality. It is also hoped that with serious attention, capital expenditure can be increased because capital expenditure is a form of infrastructure development in Indonesia, especially in Eastern Indonesia (KTI) which of course has an important role in increasing economic growth. The expected economic growth is of course not only high economic growth, but also expected to be evenly distributed in each region. In addition, the government is expected to provide policies on the management of the capital expenditure budget and the government is also expected to be able to allocate capital expenditure budgets to labor-intensive sectors, so that in the long term and short term it is expected to increase the number of workers in KTI.

b. Analysis and Implications of the Effect of the Minimum Wage on Labor Absorption Through Economic Growth

Based on the estimation results, the findings of this study indicate that the minimum wage has a negative and significant indirect effect on employment absorption through economic growth. This means that the higher the minimum wage, the lower the absorption rate of labor in KTI. This indicates that when there is an increase in the minimum wage it will lead to an increase in company production which will affect production efficiency. Reduced production efficiency will certainly affect producer output which will certainly reduce the value of aggregate demand. Then to reduce production costs, usually companies will prefer to replace human resources with more adequate technology such as sophisticated machines.

The results of this study are in line with research conducted by Panjawa J (2014) which states that an increase in the wage rate will cause a decrease in the output produced. This is because people's purchasing power decreases which in turn causes a decrease in company production costs which will have an impact on reducing the workforce in a company. Where there is a reduction in the workforce that will affect the quantity of products produced so that it will affect the amount of goods and services generated from all economic activities (GRDP) which will ultimately affect economic growth. When the production process decreases, the demand for labor will also decrease.

Therefore, the implication of the results of this study is that it is necessary to make regulations that lead to economic growth which in turn will optimize regional economic potential in accordance with economic actors so that the economy can be stable, so that when the economy is stable it will be able to create new jobs and more people who will be absorbed to work and in the end the unemployment rate will decrease. In addition, it is hoped that the government must continue to adjust the minimum wage rate so that workers are able to meet their economic needs and it is hoped that this will have a positive impact on economic growth.

c. Analysis and Implications of the Effect of Investment on Labor Absorption Through Economic Growth

Based on the estimation results, the findings of this study indicate that investment has a positive and significant indirect effect on employment absorption through economic growth. This means that the higher the investment, the higher the economic growth and employment in KTI. This indicates that when there is an increase in investment, it will increase the amount of capital, where this capital is used to produce goods and services. This indicates that when investment increases it will increase economic growth in KTI, which means it will expand the economic growth sectors in the region which will ultimately increase the number of employment in KTI.

The results of this study are in line with research conducted by Dewi and Sutrisna (2015) which states that investment has a significant effect on employment through economic growth. Mariana (2014) states that this shows that high investment will increase production results, because in the production process costs are needed to purchase raw materials, equipment and pay employee salaries with increased production results will increase economic growth followed by the creation of new jobs, so as to absorb more workers.

Therefore, the implication of the results of this research is that the government is expected to strive for a conducive investment climate, create economic stability, improve state security and appropriate regulations so that investors, both foreign and domestic, can feel safe and are interested in investing their capital so that they can increase economic growth. In addition, the policy that should be carried out by the government is to increase long-term and short-term labor-intensive employment in various business fields so that a large workforce can be absorbed so that the number of workers increases and increases economic growth, especially in Eastern Indonesia.

CONCLUSION

The research findings show that the government expenditure variable, in this case capital expenditure, has a direct negative and insignificant effect on economic growth and a positive and insignificant effect on employment. Meanwhile, indirectly, government expenditure, in this case capital expenditure, has no significant effect on employment absorption through economic growth in Eastern Indonesia (KTI). The minimum wage directly has a positive and significant effect on economic growth and a negative and significant effect on employment. Meanwhile, indirectly it has no significant negative effect on employment absorption through economic growth in Eastern Indonesia (KTI). Investment directly has a positive and significant effect on economic growth and employment. While indirectly has a positive and insignificant effect on employment through economic growth in Eastern Indonesia (KTI). Economic growth as an intervening variable has a negative and significant effect on employment absorption in Eastern Indonesia (KTI).

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