



**ANALYSIS OF THE INFLUENCE OF REAL WAGES, INVESTMENT
AND EDUCATION LEVEL ON LABOR ABSORPTION**

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ABSTRACT

Unemployment is one of the unresolved problems from year to year in various countries, including Indonesia. This problem cannot be ignored because if the unemployment rate is high, it will result in increased crime, poverty, and other social-economic phenomena. This study aims to analyze the effect of real wages, investment, and level of education on employment. The results of the analysis show that real wages have a negative and insignificant effect on employment absorption, investment has a positive and significant effect on employment absorption, and the level of education has a negative and significant effect on employment absorption.

Keywords: wages, investment, level of education, and employment

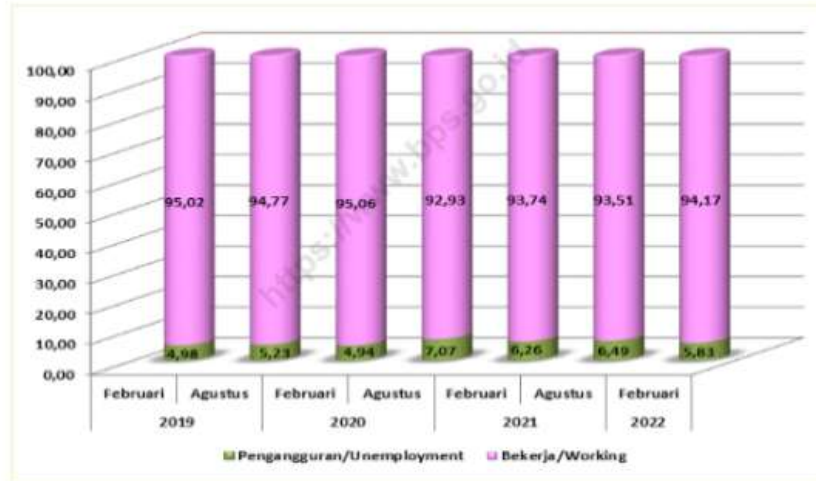
INTRODUCTION

Unemployment is one of the unresolved problems from year to year in various countries in the world including Indonesia, the high unemployment rate is caused by the large population which is not balanced by economic equality. Unequal economic growth can mean that not all residents live in prosperity and many are still classified as poor (Hafiza & Farlian, 2018)

This problem cannot be underestimated, because if the unemployment rate is high, it will increase crime, poverty and other social-economic phenomena.



Open Unemployment Rate in Indonesia



Source: (BPS, 2022)

The labor force in Indonesia continues to increase in number from time to time. This increase in the labor force indicates that the supply of labor in the labor market is increasing. Moreover, Indonesia has entered the era of demographic bonus. The demographic bonus itself is a condition where there is an increase in the population of productive age compared to non-productive age so that it can help accelerate the development of a region (Achmad Nur Sutikno, 2020)

The demographic bonus can also be a challenge in itself, because an increasing population is not always directly proportional to the success of development. It is necessary to make efforts to expand employment to balance population growth of productive age and employment (Dan et al., 2014) .

Absorption of work is closely related to wages, wages are one of the costs of production that must be paid by producers to workers as a form of remuneration. Many studies have shown that an increase in the wage rate negatively impacts employment



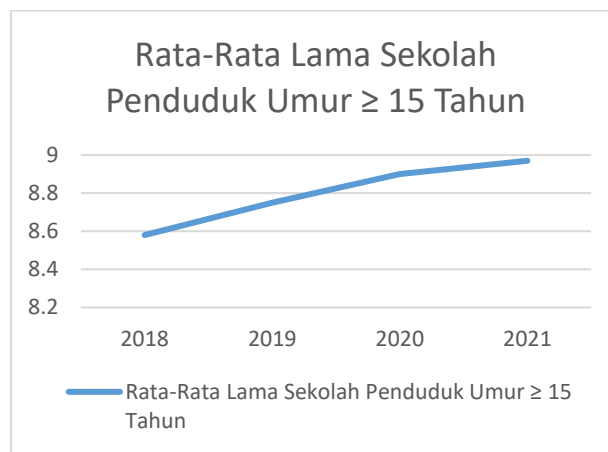
according to the wage theory. The wage rate will affect the costs incurred by producers so that it will cause a decrease in the workforce demanded. Research conducted by (Wihastuti & Rahmatullah, 2018) says that wages negatively affect employment absorption where if wages increase, the number of workers employed will decrease.

The second is the investment factor, according to the Central Bureau of Investment Statistics, is an investment activity to gain profits in the future. Investment can increase production capacity. The increase in production capacity will also increase the demand for production factors, including labor.

Based on research from (Purba, 2020) shows that both PMDM and FDI have a positive effect on employment, which means that if the investment value rises, the demand for labor will also increase.

The demand for labor can also be based on the quality of human resources where it can be measured through the education taken which can be seen from the average length of schooling.

Average School Years



Source: BPS (processed)



The figure above shows that the average length of schooling in Indonesia has increased every year but not significantly. Although this figure shows an increase, the average length of schooling for the Indonesian population is less than nine years, even though the government has promoted 12 years of compulsory education.

Referring to the previous description, an analysis of the factors affecting employment absorption is urgently needed to increase employment absorption to reduce unemployment and improve people's welfare in Indonesia. On this basis the authors are interested in conducting research titled "The Influence of Real Wages, Investment and Level of Education on employment in Indonesia".

LITERATURE REVIEW

Labor

Law of the Republic of Indonesia number 13 of 2003 concerning employment states that workforce is any person who can do work to produce goods and services both to meet their own needs and for society (Law of the Republic of Indonesia, 2003b)

Meanwhile, according to the Central Statistics Agency, workers are residents of working age and aged 15 years or more, thus the workforce in Indonesia is defined as residents aged 15 years or more, while residents under 15 years are classified as non-workers.

According to (Kuncoro, 2022) Labor absorption is the number of work force that can be accommodated by employment or in other words get job opportunities. The workforce works in various sectors of work, they get jobs because of the demand for labor.



Labor Demand Theory

Absorption of labor is a derived demand from the demand for labor. In other words, the demand for labor is a derivative demand from the output produced (Payaman J. Simanjuntak, 1985) . The demand for labor is influenced by the number of requests for goods produced because if the company increases the production of the number of goods, the company will also increase the number of workers to produce these goods.

Real Wages

According to (Sukirno, 2002) wages, namely remuneration for someone's services in a work relationship can be in the form of money or goods through work agreements and agreements that can be used to meet the needs of himself or his family. In the economy is the employer's payment to workers for services provided or given to the company.

Prices in the economy are always changing, therefore countries usually have a price index to describe changes in these prices.

namely an index that provides an overview of the average level of price changes over time. One of these price indices is the Consumer Price Index (CPI). This price index can be used to calculate the real wages received by workers from year to year (Sukirno, 2012).

Investment

According to (Todaro, 2000) investment has a fairly important role in driving a nation's economy, because increased capital will also increase production capacity and ultimately create jobs.

Investment in a macroeconomic view is the action of the corporate sector in buying capital goods and not in an individual perspective in buying capital goods (Sukirno, 2015) .



Level of education

According to Law Number 20 of 2003 Education is a conscious and planned effort to create a learning atmosphere and learning process so that students actively develop their potential to have religious spiritual strength, self-control, personality, intelligence, noble character, and the skills they need. , society, nation and state (Law of the Republic of Indonesia, 2003a)

RESEARCH METHODS

This study uses quantitative methods, namely by using secondary data obtained from BPS. The data used is panel data, combining time series data with cross section data. The data taken is on real wages , PMDN investment value, average length of schooling and the number of workers absorbed in all sectors in each province in 2017-2022.

Normality and Linearity Testing

The normality test is used to test the residual variable and determine whether it has a residual relationship. While the linearity test aims to determine whether or not there is a significant linear relationship between the two variables.

Classic assumption test

In this study , the classic assumption tests used were the normality, multicollinearity, and heteroscedasticity tests.

Hypothesis testing

The hypothesis test carried out in this study is the Partial Regression Coefficient Significance Test (t test) to test whether the independent variables partially have a



significant effect on the dependent variable and the regression success test with the F test is used to test whether the independent variables jointly influence significantly to the dependent variable

RESEARCH RESULT

The Effect of Real Wage Variables on Labor Absorption in Indonesia

Real wages partially affect employment absorption in Indonesia. It can be seen from the calculated t value and t table by comparing the two. The t-count value is -1.718589 and the t-table is 1.65251 where the t-count value is smaller than the t-table value. In addition, the effect value can also be seen from the probability value compared to the alpha value of 0.05. The probability value of the variable number of industrial units is $0.0875 > 0.05$, which means that the real wage variable has a negative and insignificant effect on the labor absorption variable.

The Effect of Domestic Investment Variables on Labor Absorption.

The PMDN investment value variable has a t-count value of 2.384804, greater than the t-table of 1.65251. So it can be concluded that partially the PMDN investment variable has a positive effect on the labor absorption variable. The influence results can also be seen from the probability value of $0.0182 < 0.05$, which means that the PMDN investment value variable has a significant effect on employment.

Effect of Education Level on Labor Absorption.

The effect of education level on employment absorption can be seen by comparing the t-test and t-table. The calculated t value is -5.070906, which is smaller than the t-table value



of 1.65251, so the education level variable has a negative effect on the energy absorption variable. Another way to see the effect is by looking at the probability value <0.05 . The probability value of the education level variable is $0.0000 < 0.05$, so it can be said that it significantly affects employment.

Effect of Real Wages, Investment and Education Level on Labor Absorption.

Based on the df results above with a degree of freedom value of 0.05, an F table value of 2.650677 is obtained. F count value $2972.420 > F$ table 2.650677. So it can be concluded that simultaneously the independent variables affect the dependent variable. Another way to see the effect simultaneously can be seen with the probability value of F equal to $0.0000 < 0.05$, which means that the independent variable simultaneously influences the dependent variable. So it can be concluded that the variable real wages, the value of PMDN investment and the level of education have a simultaneous effect on the employment variable.

Conclusion

Based on the processing results that have been carried out regarding the effect of real wages, the value of investment in domestic investment, and the level of education on labor absorption in Indonesia using panel data testing with eviews 8 it can be concluded that:

- 1) Partially real wages have a negative and insignificant effect on employment absorption in Indonesia
- 2) Partially the investment value has a positive and significant effect on the absorption of small and medium industrial workers in Indonesia



- 3) Partially, the level of education is negative and significant to the employment of small and medium industries in Indonesia
- 4) Simultaneously all independent variables, namely real wages, investment value, and education level, affect employment absorption in Indonesia.



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