

## Minimum wage and the Indonesian labor market = Upah minimum dan pasar tenaga kerja Indonesia / Noor Wahyu Sugeng Riyadi

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### Abstrak

#### <b>ABSTRAK</b><br>

Upah minimum terhadap pengangguran adalah topik klasik dalam bidang ekonomi pembangunan. Namun, belum ada kesimpulan yang seragam mengenai dampak upah minimum terhadap pengangguran. Sementara pengangguran dan informalitas menjadi masalah serius yang dihadapi oleh negara-negara berkembang. Indonesia sebagai salah satu negara-negara berkembang telah melaksanakan desentralisasi penetapan upah minimum. Kebijakan ini telah menyebabkan variasi antar Provinsi baik yang berbeda pulau ataupun di dalam satu pulau. Tujuan paper ini untuk menemukan hubungan antara upah minimum pengangguran menggabungkan dengan setengah pengangguran dan informalitas menggunakan panel data set dari 33 provinsi di Indonesia sejak 2006 sampai 2012. Berdasarkan tetap statik dan efek random, upah minimum menunjukkan hubungan yang negatif dengan pengangguran, pengangguran dan informalitas. Kenaikan upah minimum akan berdampak terhadap penurunan pengangguran, pengangguran dan informalitas. Hasil ini dianggap hasil yang mengejutkan karena banyak literatur sebelumnya menyebutkan hubungan yang positif. Hubungan negatif juga berarti monopsony yang memainkan peran penting di pasar tenaga kerja Indonesia. Monopsony di Indonesia bukan suatu hal yang mengejutkan karena karakteristik geografis dan konsentrasi pasar yang ada. Selain itu, hasil dari 2SLS estimasi menggunakan komponen biaya hidup layak sebagai variabel instrumental memberikan hasil tidak berbeda dibandingkan model efek statik.

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#### <b>ABSTRACT</b><br>

Minimum wage impact on unemployment is classical topic in area of economic development. However, there has been no uniform conclusion on how minimum wage gives impact to unemployment. Meanwhile underemployment and informality become serious problem faced by developing countries. Indonesia as one of the developing countries has decentralized the minimum wage setting. This policy has led to variation of provincial minimum wage across provinces between islands, but also variations within island. While there has been several studies which examine the minimum wage impact on Indonesian labor market, there is still no study on unemployment combine with underemployment and informality that taken into account of endogeneity problem from minimum wage. In order to fill this gap on the existing literature, this paper utilizes panel data set from 33 Indonesian provinces since 2006 to 2012. Fixed effect and random effect panel data set are being employed to find the relationship between minimum wage and this paper's outcomes. Furthermore, two stages least square model is used to tackle the endogeneity between minimum wage and outcomes that this paper examines.

Based on fixed effect and random effect model, minimum wage show negative relationships with unemployment, underemployment and informality. Increases in minimum wage will work towards reduced unemployment, underemployment and informality. This result is considered a surprising result due to many previous literatures provide positive relationships. The negative relationship also means that monopsony

played a significant role in the Indonesian labor market. Monopsony in Indonesia is not a surprising fact due to geographical characteristics and market concentrations are existed. Furthermore, two stages least square estimation using decent living costs as instrumental variable provide no different result as compare to static effect models.