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Research Article

The Effect of Inflation and Minimum Wages on Labor Absorption in Indonesia for the 2013-2023 Period

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Minimum Wage,
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Abstract

This research aims to determine the effect of inflation and minimum wages on labor absorption in Indonesia for the 2013-2023 period. The method used is quantitative descriptive, namely numerical data in the form of numbers and then processed using the eviews application. The data used in this research is secondary data, namely data obtained from BPS, BI, and so on. The data analysis technique in this research uses multiple linear regression analysis hypothesis testing and classical assumptions which include normality tests and multicollinearity tests. The research results show that simultaneously the inflation and minimum wage variables have a positive and significant influence on the labor absorption variable in Indonesia. Meanwhile, partially the inflation variable has a negative and significant influence on the labor absorption variable in Indonesia and the minimum wage variable has a positive and significant influence on the labor absorption variable in Indonesia.

Introduction

One of the goals of economic development is to provide employment opportunities, so that the workforce grows faster than job opportunities, thereby reducing the burden of unemployment. In human life, the most basic aspect is employment, because it includes social dimensions and economic dimensions. Labor is also the most important and influential production factor in managing and controlling the economic system. Therefore, the role of humans and economic development are interrelated. Where humans are workers, input in development, as well as consumers of the results of development itself.

Since the reform era, Indonesia has experienced significant economic growth, but is still faced with various challenges, including the problem of optimal labor absorption. Expanding labor absorption is needed to keep up with the growth rate of the young population entering the labor market. Imbalance between. Labor force growth and job creation will cause high unemployment rates. Then, increasing unemployment rates will result in a waste of resources and the potential of the existing workforce, increasing the burden on society, and is the main source of poverty and encourages an increase in poverty. social unrest, as well as hampering long-term economic development (Depnakertrans, 2004). The problem of labor absorption is a problem that is faced or cannot be avoided by all regions in Indonesia.

Employment has been one of the biggest problems faced by the country from time to time, related to high unemployment which can reduce people's productivity and income, as well as giving rise to poverty and other social problems. In this context, labor has a very important role in creating economic activity and increasing production. Indonesia, as a country with a high population and a large labor force, has enormous potential in terms of labor supply. However, the high number of workers is not balanced with the availability of adequate employment opportunities, so labor absorption is not optimal. Labor absorption is related to the number of workers requested by a particular company or agency.

Changes in wage levels will affect the company's production costs. The higher the wage level, the lower labor absorption because companies will increase their production costs. Vice versa, the lower the wage level, the company will increase its workforce and employment will increase. (Sumarsono, 2003: 106).

Labor absorption is a process where labor available in the labor market is absorbed by companies or organizations to carry out production activities. This absorption of labor can be seen from the number of working people and the available jobs. Optimal workforce absorption can increase people's productivity and income, as well as reduce unemployment. Utilization of a high workforce can accelerate national development and growth. The problem of unemployment, which is the result of a high workforce that is not balanced with the number of demands for available jobs, can hamper the development process. Continuously increasing unemployment can increase the burden on the regional economy and reduce people's welfare.

Labor which is human resources (HR) is an important factor for the realization of development. Indonesia, as a developing country with a high population and a high workforce, has enormous potential in terms of labor supply. However, the high number of workers is not balanced with the availability of adequate employment opportunities, so labor absorption is not optimal. Utilization of a high number of workers can accelerate national development and growth. The problem of unemployment, which is the result of a high workforce that is not balanced with the number of demands for available jobs, can hamper the development process. Continuously increasing unemployment can increase the burden on the regional economy and reduce people's welfare (Hadi Sasana, 2009).

Inflation and minimum wages are two important factors that influence the labor market. High inflation can reduce people's purchasing power, so companies may be more careful in recruiting new workers or even make workforce cuts. Research conducted by Esthi Bhakti Warapsari, Wahyu Hidayat, and Arfida Boedirochminarni (2021), said that the minimum wage influences labor absorption in East Java. The research results show that partially the variables that significantly influence the labor absorption variable are the minimum wage and inflation apart from that. In research conducted by Indriyani (2016), it is said that inflation has an impact and influence on the stability of economic activities in a country. Inflation is the overall increase in prices of goods. This inflation will occur if the prices of many goods rise simultaneously over several periods of time (Case & Fair, 2007: 57). On the other hand, high minimum wages can be a burden for companies, especially for small and medium companies, which may choose to reducing the number of workers or not recruiting new workers. In Indonesia, the minimum wage policy is regulated by the government every year through the Government Regulation on Wages. Meanwhile, inflation is influenced by various factors, including Bank Indonesia's monetary policy and external factors such as world oil prices. High inflation can reduce people's purchasing power, so companies may be more careful in recruiting new workers or even make workforce cuts. According to Winardi, inflation is a period at a certain time, which occurs when the purchasing power of the monetary unit decreases, and the meaning of inflation can arise if the value of money deposited in circulation is greater than the amount of goods or services offered.

The problem faced in labor absorption in Indonesia is the imbalance between labor force growth and job creation. The high number of available workers is not balanced with the number of jobs available, resulting in high unemployment rates. This can hinder the development process and increase the burden on society. Apart from that, inflation and minimum wages also affect labor absorption. A high inflation rate can reduce people's purchasing power, so companies may be more careful in recruiting new workers or even make

workforce cuts. Meanwhile, high minimum wages can be a burden for companies, especially for small and medium businesses, which may choose to reduce the number of workers or not recruit new workers.

Inflation has a major impact on employment. Boedirochminarni's (2018) research states that inflation has a significant influence on labor absorption. Research shows that inflation has a negative impact on employment. High inflation rates can reduce labor demand because inflation increases the cost of living and leaves workers without enough money to buy the products and services they need. Inflation and minimum wages have a complex relationship. Research conducted by Sukirno (Indriyani, 2016) states that inflation can affect the minimum wage. A high inflation rate can cause the cost of living to be higher, so the minimum wage must also be increased to maintain workers' quality of life. Research by Esthi Bhakti Warapsari, Wahyu Hidayat, and Arfida Boedirochminarni (2021) states that minimum wages influence employment. Research shows that minimum wages have a significant impact on employment. Minimum wages have a significant impact on employment. Research by Boedirochminarni (2018) states that the minimum wage has a significant influence on job acquisition. Research shows that a higher minimum wage can increase labor force participation by giving workers more money to buy the products and services they need.

Labor absorption is a very important factor in improving people's quality of life. Optimal work intake increases people's productivity and income and reduces unemployment. Inflation and minimum wages are two factors that influence the labor market. Increasing inflation rates can reduce people's purchasing power, making companies more careful in recruiting new workers or even reducing their workforce. On the other hand, high minimum wages place a burden on companies, especially small and medium businesses, which can cause companies to reduce the number of workers or not recruit new workers. Therefore, appropriate steps and effective strategies are needed to increase employment. and reduce unemployment.

Hypotheses Development

A hypothesis is generally defined as a temporary answer (alleged) to a research problem. The hypotheses that can be developed based on this introduction to determine the influence of inflation and minimum wages on labor absorption in Indonesia for the 2013-2023 period are as follows:

Hypothesis 1 (H1): There is a negative relationship between the influence of inflation on labor in Indonesia for the 2013-2023 period, meaning that the influence of high inflation on labor can cause a decrease in people's purchasing power and hamper economic growth in Indonesia. This hypothesis is assumed because it is expected to use quantitative research methods which are centered on testing theory through measuring research variables based on numbers and analyzing data using statistical methods to see the relationship between the influence of inflation and labor in Indonesia. This means that from the research model carried out there has been a decline in people's purchasing power and hampered economic growth in Indonesia.

Hypothesis 2 (H2): There is a positive relationship between the minimum wage and labor in Indonesia, meaning that giving more minimum wages to workers can increase purchasing power, by giving workers higher minimum wages, this can increase their purchasing power when workers have more money to spend, this can increase demand for goods and services, which in turn can drive economic growth.

This hypothesis is assumed because it is expected to use quantitative research methods which are centered on testing theory through measuring research variables based on numbers and analyzing data using statistical methods to see the existence of a positive relationship between minimum wage commitments and labor in Indonesia. This means that from the research model carried out there is an increase in the minimum wage which causes an increase in workers' purchasing power.

Method

This research uses quantitative descriptive, namely research that explains the analysis of numerical data in the form of numbers which is then processed using the evIEWS application and explained in the form of a description.

The data used in this research is secondary data, namely data obtained from government agencies and has been published to the public, such as the Central Statistics Agency (BPS), Bank Indonesia (BI) and other sources that can provide sufficient information.

Table 1. Data Used in Research

Year	Labor	Inflation (%)	Minimum Wage
2013	228.690.684	83,59	1.296.908
2014	232.798.018	77,03	1.584.391
2015	235.666.020	76,59	1.790.342
2016	239.059.670	42,37	1.997.819
2017	245.561.272	45,71	2.109.870
2018	255.761.727	38,37	2.268.874
2019	260.447.863	36,35	2.455.662
2020	261.747.050	24,43	2.672.371
2021	262.114.828	18,72	2.736.463
2022	270.908.608	50,47	3.070.756
2023	278.484.888	44,23	3.178.277

The data analysis technique in this research uses multiple linear regression analysis hypothesis testing. Multiple linear regression analysis is used to determine the influence of two or more independent variables on one dependent variable. However, before carrying out multiple linear regression analysis, classical assumption tests are used which include normality tests and multicollinearity tests. The normality test aims to test whether in the regression model, the dependent variable and the independent variable both have a normal distribution or not. A good regression model has a normal or close to normal data distribution (Ghozali, 2001). Meanwhile, the multicollinearity test aims to test whether in the regression model a correlation is found between the independent variables (Ghozali, 2001).

The form of the multiple linear regression equation used can be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Information :

Y = Dependent variable: Labor Absorption

α = Constant

β_1 = Inflation variable coefficient

β_2 = Minimum Wage variable coefficient

X1 = Inflation Variable

X2 = Minimum Wage Variable

ϵ = Random errors or confounding factors

Apart from that, researchers also use partial tests and simultaneous tests which aim to find out whether the independent variables individually and together have a significant influence on the dependent variable. The T test aims to test whether the independent variable has a partial influence on the dependent variable, so the t test is used. The F test aims to test whether the independent variable has a simultaneous or joint influence on the dependent variable, so the F test is used (Ghozali, Imam. 2001).

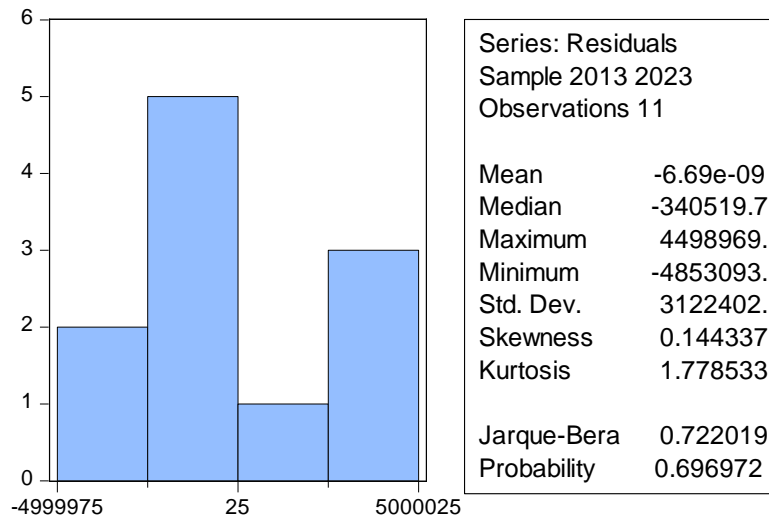
Results And Discussion

Result

Classic assumption test

1) Normality Test

Table 2. Normality Test Results



Based on the results of the Normality Test in the table above, it is known that the Probability value is **0.696972 > 0.05**, which means that the data used is normally distributed so that the regression model can be used for hypothesis testing.

2) Multicollinearity Test

Tabel 3. Multicollinearity Test Results

Variance Inflation Factors
 Date: 04/29/24 Time: 09:38
 Sample: 2013 2023
 Included observations: 11

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	8.26E+13	74.53165	NA
X1	5.50E+09	13.95021	2.083113
X2	7.005915	35.17075	2.083113

Based on the results of the Multicollinearity Test, it can be seen in the Centerede VIF table. It is known that the VIF value for variable X1 is **2.083113** and for variable.

Multiple Linear Regression Test

Multiple linear regression analysis is used to determine the effect of the independent variables, namely Inflation (X1) and Minimum Wage (X2) on the dependent variable, namely Labor Absorption (Y). The regression results using the Eviews data processing program are then entered into the multiple linear regression equation as follows:

$$Y = 1.89E+08 + 15280.39 X1 + 27.34175 X2$$

Based on the formula above, it can be interpreted as follows:

- 1) The constant value **1.89E+08** means that if X1 and X2 are equal to 0 then the labor absorption value is equal to **1.89E+08**.
- 2) If X1 increases by one unit, the value of labor absorption will decrease by **15280.39** and conversely, if the value of X1 decreases by one unit, the value of labor absorption will increase by 15280.39.
- 3) If X2 increases by one unit then the labor absorption value increases by **27.34175** and vice versa if.

Table 4. Multiple Linear Regression Test Results

Dependent Variable: Y
Method: Least Squares
Date: 04/29/24 Time: 09:23
Sample: 2013 2023
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.89E+08	9086943.	20.75962	0.0000
X1	15280.39	74155.44	0.206059	0.8419
X2	27.34175	2.646869	10.32985	0.0000
R-squared	0.964282	Mean dependent var	2.52E+08	
Adjusted R-squared	0.955352	S.D. dependent var	16521237	
S.E. of regression	3490951.	Akaike info criterion	33.19625	
Sum squared resid	9.75E+13	Schwarz criterion	33.30476	
Log likelihood	-179.5794	Hannan-Quinn criter.	33.12784	
F-statistic	107.9870	Durbin-Watson stat	1.187184	
Prob(F-statistic)	0.000002			

Based on table 4, the following results are obtained:

1. Partial Significance Test (T Test)
 - a) The Effect of Inflation on Labor Absorption
The Inflation variable has a P-value of **0.8419 > 0.05** with a coefficient value of **15280.39**. Then we get the calculated t value (**0.206059**) < t table (**1.85955**) which means that Ho is accepted and Ha is rejected. This means that there is a negative and insignificant influence between inflation and labor absorption in Indonesia for the 2013-2023 period.
 - b) The Effect of Minimum Wage on Labor Absorption
The Minimum Wage variable has a P-value of **0.0000 < 0.05** with a coefficient value of **27.34175**. Then we get the calculated t value (**10.32985**) > t table (**1.85955**) which means that Ho is rejected and Ha is accepted. This means that there is a positive and significant influence between the minimum wage and labor absorption in Indonesia for the 2013-2023 period.
2. Simultaneous Significance Test (F Test)
Based on the test results in table 3, it shows an F-statistic value of **107.9870** with a probability of **0.000002 < 0.05** and also the calculated f value (**107.9870**) > f table (**4.46**) which means that Ho is rejected and Ha is accepted. Thus, it can be concluded that simultaneously the inflation and minimum wage variables have a positive and significant influence on the labor absorption variable in Indonesia for the 2013-2023 period.

Discussion

The Effect of Inflation on Labor Absorption in Indonesia

Regarding the inflation variable, from partial research results it was found that the inflation variable had a negative and insignificant effect on labor absorption as indicated by the probability value of **0.8419 >**

0.05. So high and low inflation rates do not have an influence on the number of workers absorbed. This statement is in line with quantity theory (classical), that inflation can only occur when the volume of the money supply is increased. The impacts of inflation include changes in production output, the volume of money in circulation, and the number of workers because companies carry out more or less production activities than usual depending on what inflation is occurring (Gregory, 2006:99). So when inflation rises, the money supply will automatically increase significantly, and people will spend this money to convert it into goods. This condition is called inflation which causes a decrease in the number of workers absorbed.

The results show that inflation is negative and not significant for labor absorption in Indonesia because inflation in 2013-2023 is classified as light inflation, although there are several years that have high inflation rates, but more have low inflation rates, so the inflation rate has no influence on the number of workers absorbed in Indonesia. The results of this research are in accordance with the research of Siti Nur Kholipah (2022), Cahyanda Nofrita and Marwan (2022), Rika, Antoni, Firdaus (2020), Anamathofani (2019), Indradewa and Natha (2015) which stated that inflation has no positive effect and does not significant impact on labor absorption in Indonesia.

The Effect of Minimum Wages on Labor Absorption in Indonesia

Based on the research results, it shows that the minimum wage has a positive and significant effect on labor absorption in Indonesia, meaning that if there is an increase in the minimum wage it will increase the amount of labor absorbed. When there is an increase in wages, purchasing power will increase, thus encouraging enthusiasm for work and increasing people's work productivity. Increasing people's purchasing power will also increase demand for goods from entrepreneurs so that it can increase labor absorption.

Every year, Indonesia experiences an increase in the minimum wage. Minimum wages can affect labor absorption because minimum wages are an input to economic activity. This increase in wages also affects people's purchasing power, thus increasing demand. Demand is increasing so companies are also increasing production. With an increase in production, the company will increase the number of workers it uses. In efficiency wage theory, it states that wages will affect the nutrition of workers. If you pay workers well, you can increase workers' productivity. In other words, increasing wages will have a good impact on workers because it will increase productivity. With increased productivity, companies do not reduce workers. (Mankiw, 2007 :165).

The results of this research are in accordance with research conducted by Yunita and Nur (2020), Agustin (2020), Elsa Susanti (2019), Indradewa and Natha (2015), Cahyanda Nofrita and Marwan (2022) which stated that the minimum wage has a positive and significant effect on labor absorption in Indonesia.

The Effect of Inflation and Minimum Wages on Labor Absorption

From the results of the analysis that has been carried out, the probability value is $0.000002 < 0.05$ with calculated $f (107.9870) > f \text{ table } (4.46)$, so it can be concluded that the regression model is estimated to be able to explain the influence of the independent variable on the dependent variable simultaneously or in other words H_a accepted and H_o rejected.

In this case, it shows that if the inflation rate is stable and the wages given are decent, this will affect the absorption of the number of workers in the world of work. This statement is in line with the theory put forward by Handoko (1987:56) that the absorption of the number of workers is influenced by two factors, namely internal and external factors. Internal factors are influenced by the minimum wage, while external factors are influenced by inflation.

Conclusion

Based on the results of the research and discussion, it can be concluded that simultaneously the inflation and minimum wage variables have a positive and significant influence on the labor absorption variable in Indonesia. Meanwhile, partially the inflation variable has a negative and significant influence on the labor absorption variable in Indonesia and the minimum wage variable has a positive and significant influence on the labor absorption variable in Indonesia.

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