

THE EFFECT OF MINIMUM WAGE, EDUCATION LEVEL AND INFLATION ON EMPLOYMENT IN PEKANBARU CITY

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ABSTRACT

One aspect of the employment issue is labor. Individuals of working age who fall into the unemployed category because they can't be successfully absorbed. To promote evenly distributed economic development, emerging countries must encourage labor absorption as one of the critical components of their economic development strategies. This study investigates the impact of the minimum wage on the ability to absorb energy, the role of education level on labor absorption, and the relationship between inflation and employment in Pekanbaru City. Time series data used in the data analysis method spans 2006–2021. This study used multiple linear regression analysis methods. The results showed that the minimum wage had a partial positive and significant effect on the employment of labor, the level of education had a negative and significant impact on labor absorption, and inflation had a negative and significant effect on employment in Pekanbaru City. Simultaneously, the minimum wage, education level, and inflation have a significant impact on employment in Pekanbaru City, with R-Square at 88.1%. In contrast, the rest, 11.9%, were influenced by other variables that were not studied.

Keywords: minimum wage, education level, inflation, employment

INTRODUCTION

Economic development is increasing per capita income in the long run. Economic development is inseparable from economic *growth*. Economic development can encourage economic growth and vice versa. Economic growth can facilitate the process of economic development. Labor is an inseparable part of economic development, with the existence of superior and qualified human resources as labor will positively impact a country's development. Labor is a driver of growth and also one of the factors of production that plays a vital role because the productivity of other factors of production depends on the productivity of labor in producing a product.

Pekanbaru City, the capital of Riau Province, has much population compared to other regions in Riau Province. The growing population will increase the number of the labor force, which, if not balanced with the provision of jobs, will become a problem in the economy of the area. The high rate of population growth that occurs can hamper the development process. Population growth can be both a driving factor and an inhibiting factor in development. Population is seen as a driving factor when population development can increase production and develop economic activities with the availability of abundant labor. Population is seen as an inhibiting factor if population growth cannot be balanced with adequate facilities and infrastructure to support survival. The population is to create a prosperous and prosperous life. The development of an excessive population will result in problems in employment. A large population cannot be adequately absorbed and can result in high unemployment, high crime rates, high rates of poverty, and declining health.

Employment is part of the employment problem. Working-age people who cannot adequately absorb will be included in the unemployed category. Employment is closely related to unemployment; if

great opportunities are available, significant employment will also occur. The large number of people already working will decrease the unemployment rate. Thus, the absorption of labor is the opposite of unemployment, which is interrelated. Therefore, the absorption of labor is one of the essential factors in supporting economic development carried out by developed countries to create equitable economic development. The most significant number of the labor force is in Pekanbaru City. From 2015 to 2019, the number of people working in Pekanbaru City has consistently increased. In 2020, the labor force in Pekanbaru City decreased compared to the previous year, namely 2019. The increase in the labor force in Pekanbaru City is due to the number of people in Pekanbaru City, which has also increased.

The number of residents in Pekanbaru City increases every year, accompanied by an increase in the labor force. The increase in population and labor force occurred in 2015-2019. In 2020, the population and labor force decreased compared to the previous year. The highest growth of the working population occurred in 2019, which was 514 200. Open unemployment in Pekanbaru City from 2015-2020 also increased every year. Demand for labor is a theory that explains how much a business will be able to employ workers at various levels of wages in a given period. Demand for work means a relationship between the level of salary and the amount of labor that employers are willing to employ. Changes in the wage level can affect company production costs of the company; if we assume the level of wages increases, it will become thing as follows: An increase in the wage level can increase the cost of production of a company, which can then increase the price per unit of goods to be produced.

Consumer response to the increase in goods is that consumers will reduce consumption or even not buy these goods; this results in much production that is not sold, and producers are forced to lower the amount of output. A decrease in the amount of production will result in a reduction in the labor needed. A decrease in the amount of labor required can occur due to a reduction in the scale of production called the scale of production or scale effect. The development of the minimum wage level in Pekanbaru City always increases yearly. The highest minimum wage in Pekanbaru City is in 2021 at 3,049,676. The Government can overcome employment problems, one way is to improve the wage system through a policy called the minimum wage. The government in Indonesia regulates the wage system through the Regulation of the Minister of Manpower PP No. 78/2015 concerning Minimum Wage. The City Minimum Wage (abbreviated as UMK) is a minimum wage that applies to all sub-districts in one city, in addition to wages that cause labor absorption rates to exist. Another factor is the level of education. Education is critical for everyone because of the critical role of educators in improving the quality of education and the main factors that ensure better schools. If the school has good educators,

Education owned by a person will affect work productivity because education is capital to create high productivity in a job. In the city of Pekanbaru, the working population is still dominated by residents with a high school education level. Residents with education levels still at the high school level reflect the quality of human capital with limited capabilities. The education level still dominated at the Senior High School (SMA) level can cause educated unemployment. Employment is influenced not only by the minimum wage and education level but also by inflation. Inflation, according to (Sukirno, 2013), is defined as a process in which there is an increase in prices prevailing in an economy. Inflation has different rates from one period to another and from country to country. Inflation is the tendency for prices to rise generally and continuously, but the price increase of one or two goods alone is not. It may be referred to as inflation, except when the growth extends or results in an increase in the price of a large part of other goods. Inflation is a condition in which there is an increase in the general price level, both goods, services, and factors of production; if inflation is felt to be high, it will increase production costs, which have the potential to reduce the use and number of labor.

Inflation that occurs in Pekanbaru City tends to fluctuate from year to year. The highest inflation in Pekanbaru City occurred in 2013, and the lowest in 2020. Inflation that occurs in this region has several

impacts and consequences, which include inflation can cause changes in output and labor; how to motivate a company to produce more or less than it has done depends on the intensity of inflation that occurs. If inflation that occurs in the economy is still relatively mild, the Company will try to increase the amount of output or production because mild inflation can encourage morale producers from rising prices which can be reached by producers. The company's desire to increase output is of course also accompanied by the increase in production factors such as work. In this condition, the demand for labor will increase, which further increases the availability of existing labor and ultimately encourages the pace of the economy through an increase in national income.

LITERATUR AND REVIEW

Workforce Absorption Theory

According to (Sumarni & Soeprihanto, 2014) labor is an individual who offers his skills and abilities he has to produce goods or services so that the company can achieve profits, the individual will get a salary or wage according to the skills or abilities he has. According to (Mulyadi, 2014) what is said to be labor is the population in working age (15-64 years) or the total of residents in a country that can produce goods and services. If there is a demand for their labor and if they want to participate in the activity..

Labour's Demand Theory

The main employment problem in Indonesia is the limited number of jobs to be filled or entered by job seekers. Job seekers can get job opportunities in the labor market. In the labor market, there is an interaction between the demand for labor and the supply of labor. Demand for work is a relationship between the level of wages and the number of workers employers are willing to employ. Demand for delivery is the amount of labor used by employers or employers at the level of salary in a certain period. Production activities require work as executors of the production process. The demand for work comes from producer households or employers. The employer provides specific qualifications for the workforce to fulfill. After an agreement is obtained between the employer and the job seeker, the employer is obliged to pay according to the work done by the worker (Aryanti et al., 2019)

Minimum Wage

Wages are an essential component in employment relations. The importance of giving wages to workers based on the results of work and the amount of need is something that employers must consider. Minimizing disputes between employers and workers over wages requires government intervention. One form of government intervention is the establishment of a minimum wage rate. The minimum wage is a government policy so that workers get wages by the value or price of their necessities. Wage arrangements are established upon agreement between employers and workers or trade unions. The stipulated wage must be at least the applicable wage provisions. Employers must pay workers or laborers wages based on applicable laws and regulations (Aryanti et al., 2019)

Education Level

Education is the primary capital needed to carry out work. Education aims to increase skills and knowledge and improve one's independence and personality. Higher education will make the ability to work productively higher, which will be used as an indicator of labor quality. (Noviendri, 2021). Education is a fundamental development goal in which education plays a role in shaping a country's ability

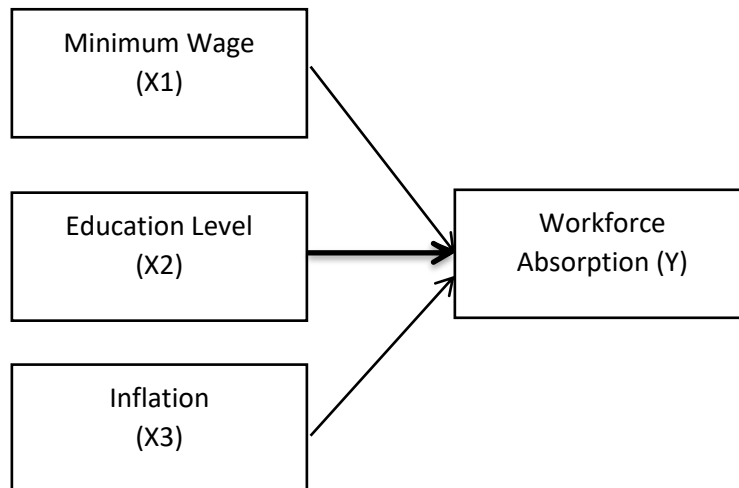
to absorb modern technology and develop the capacity to create it. Growth and development are in the millions. (Todaro & Smith, 2011)

According to (Prasetya, 2021), the level of education is an activity for a person to develop abilities, attitudes, and forms of behavior, both for life in the present and also preparation for His future life through a specific or disorganized organization. The education path in Indonesia, according to Law Number 57 of 2021 concerning National Education Standards, consists of three paths, namely formal education pathways, informal education, and informal education.

Inflation

Inflation is a general and continuous increase in the price of goods. According to (Sukirno, 2013), inflation is a process of rising prices that prevail in an economy. According to Economics (Kartini, 2019) Inflation is a process of increasing costs in general and continuously (continuously) related to market mechanisms that various factors, including increased public consumption or the unsmooth distribution of goods can cause. According to Bank Indonesia (BI), the definition of inflation is the tendency of prices to increase in general and continuously. Inflation is a condition where there is a general and continuous increase in prices for goods that results in a decrease in the value of the currency. The condition of an increase in the prices of a single good cannot be called inflation unless the value of the increase extends to a large part of the price of the goods others, the tendency of continuous price increases due to seasonal changes, such as Eid al-Fitr, Christmas, New Year and other holidays.

Figure 1 Framework of Thought



Based on the description of the background, problem formulation and central review that the author has described above, the following hypothesis can be proposed:

1. Minimum Wage has a positive effect on employment in Pekanbaru City.
2. The Pendidikan rate has a positive effect on the absorption of labor in Pekanbaru City.
3. Inflation negatively affects employment in Pekanbaru City.
4. Minimum Wage, Education Level and Inflation together affect the absorption of labor in Pekanbaru City.

METHOD, DATA, AND ANALYSIS

The author conducted this research in Pekanbaru City by taking research data through the Central Bureau of Statistics of Pekanbaru City. This research was conducted from 2021 to 2022 with a research time period from 2006 to 2021. The population used in this study is all labor data in Pekanbaru City. The sample used in this study was the entire population.

The data used in this study is secondary data in the form of time series data (Time Series) with a time period of 2006-2021. Data collected in addition to data from the Central Bureau of Statistics the author also obtained research data from scientific journals, literature and official websites from the internet related to this research.

In collecting research data, the author uses quantitative data using secondary data sources from related agencies, namely the Central Statistics Agency (BPS) City Pekanbaru and official websites via the internet. These data are in the form of data on the working force, average length of schooling, minimum wage and inflation in Pekanbaru City in 2006-2021.

In this study there are more than one variable used, namely Minimum Wage (X1), Education Level (X2) and Inflation (X3), then data analysis is carried out using a linear regression analysis model multiple *regression*. The dependent variable is labor absorption (Y). Using the coefficient of determination, t-test (partial test) and F test (simultaneous test). This research uses data analysis techniques with the help of the *Statistical Package For Social Science* (SPSS) program. The test used in research is a multiple regression test, which is to find out the relation between several independent variables on the dependent variable.

The general equation is as follows :

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where:

- Y = Employment (percent)
- a = Constant
- b = Regression coefficient
- X₁ = Minimum Wage (Rupiah)
- X₂ = Education Level (Years)
- X₃ = Inflation (Percent)
- e = Standard error

RESULT AND DISCUSSION

Development of Workforce Absorption

From the results of the study, it is known that the labor force working in Pekanbaru City in 2006-2021 has fluctuated. The highest labor force in 2010 was 545,573 and the lowest in 2006 was 247,669. Based on the percentage of the working population, the highest employment rate in 2019 was 60.92% and the lowest in 2006 at 47.18%.

Minimum Wage Reconciliation

Based on the observations, the development of the minimum wage in Pekanbaru City is explained. The minimum wage in Pekanbaru City has increased annually from the minimum wage in 2006-2021. The highest minimum wage in Pekanbaru City in 2021 is Rp. 3,049,676 and the lowest minimum wage in Pekanbaru City in 2006 amounted to Rp. 637,000.

c. Development of Education Level

Based on the results of observations made, it is explained that the average length of schooling in Pekanbaru City has fluctuated. The highest average number of school years in Pekanbaru City in 2021 was 11.92 and the lowest average number of school years in Pekanbaru City in 2010 was 10.67. The highest gross participation rate in Pekanbaru City is at the elementary level.

d. Inflation Development

From the development of inflation observed shows that the inflation rate (%) and consumer price index occurred in Pekanbaru City in 2011-2021. Inflation in Pekanbaru City fluctuates from year to year. The highest inflation occurred in 2013 at 8.53% and the lowest inflation occurred in 2021 at 1.54%. CPI in Pekanbaru City from year to year also fluctuates, the highest CPI (Consumer Price Index) in Pekanbaru City occurred in 2013 which was 140.60 and the price index The lowest consumer occurred in 2020 at 103.62.

Table 1 Test Results of Minimum Wage, Education Level and Inflation on Employment in Pekanbaru City

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	159.189	17.123		9.297	.000
	Upah Minimum (X1)	4.382	.758	.853	5.779	.000
	Education Level (X2)	-9.696	1.591	-.725	-6.094	.000
	Inflation (X3)	-.319	.142	-.289	-2.247	.044

a. Dependent Variable: Employment (Y)

Source : SPSS 25 Processed Data

Based on the results of the t test shown in table 1 the following conclusions are obtained:

- 1) The significant value (Sig) of the Minimum Wage variable is 0.000 less than ($<$) 0.05. So it can be concluded that the minimum wage partially has a significant influence on labor absorption
- 2) The significant value (Sig) of the Education Level variable is 0.000 less than ($<$) 0.05. So it can be concluded that the level of education partially has a significant influence on labor absorption
- 3) The significant value (Sig) of the Inflation variable is 0.044 less than ($<$) 0.05. So it can be concluded that inflation partially has a significant effect on employment

The Effect of Minimum Wage on the Absorption of Working Workers in Pekanbaru City

Based on the test results using the multiple linear regression method, it can be seen that the minimum wage variable has a significant effect with a positive coefficient value of 4.382 on absorption manpower in Kota Pekanbaru. This means that the level of education has a positive influence on the absorption of labor in Pekanbaru City. This shows that the minimum wage hypothesis has a positive effect on the absorption of labor in Pekanbaru City is accepted. Every wage increase of one hundred thousand rupiah will increase labor absorption by 4.382 percent in the city of Pekanbaru. The wage coefficient of 4.382 means that if wages increase, it will cause labor absorption to increase. Then the

significant value of the minimum wage worth $0.000 < 0.05$ which shows its significance to the independent variable of labor absorption in Pekanbaru City.

The Effect of Education Level on Employment in Pekanbaru City

Based on the test results using the multiple linear regression method, it can be seen that the variable level of education has a significant effect with a negative coefficient value of -9.696 against employment in Pekanbaru City. This means that the level of education has a negative influence on the absorption of labor in Pekanbaru City. This shows that the hypothesis of the level of education having a positive effect on employment in Pekanbaru City is rejected. Although the level of education negatively affects employment, the population needs to improve its education, because the level of education affects the rate of economic growth of a country.

The Effect of Inflation on Employment in Pekanbaru City

Based on the test results using the multiple linear regression method, it can be seen that the inflation variable has a significant effect with a negative coefficient value of -0.319 on absorption labor force in Kota Pekanbaru. This means that inflation has a negative influence on employment in Pekanbaru City. This shows that the hypothesis of inflation negatively affecting employment in Pekanbaru City is accepted. This is in accordance with the theory of A.W Philips which says there is a very close relationship between the inflation rate and the unemployment rate which is nothing but the opposite of energy absorption work. Rising inflation rates will result in decreased employment and will lead to unemployment.

The Effect of Minimum Wage, Education Level and Inflation Together Affect Employment in Pekanbaru City

The results of the study obtained a calculated F value of 29.683 and a significant value of 0.000. The results of the study obtained a calculated F value of $29.683 > F \text{ table } 3.49$ and a significance value of $0.000 < 0.05$, it can be concluded that the independent variables (minimum wage, education level and Inflation) together affect the dependent variable (absorption of labor). This means that independent variables are able to explain the magnitude of the dependent variable, namely labor absorption.

CONCLUSION

Based on the results of the research and discussion discussed in the previous chapter regarding the effect of the minimum wage, education level, and inflation on employment in Pekanbaru City, The conclusion is as follows: The Minimum Wage had a positive and significant effect on employment in Kota Pekanbaru in 2006–2021. This means that if there is an increase in the minimum wage, it will cause an increase in employment by 4,382 people. The level of education has had a negative and significant effect on the absorption of labor in Pekanbaru City from 2006 to 2021. This means that if there is an increase in the level of education, it will reduce the absorption of labor by 9,696 people. Inflation had a negative and significant effect on employment in Pekanbaru City in 2006–2021. This means that if there is an increase in inflation, it will reduce employment by 0.319 people. Simultaneously, minimum wage, education level, and inflation affect employment with an R-squared value of 88.1%, while a system of 11.9% is contributed by other factors not discussed in this research. Based on the conclusions that have been produced in this study, the author provides suggestions that need attention, namely: It is expected that the Pekanbaru City Government will be present to increase employment, especially for the highly educated. With so many jobs, it is expected to reduce unemployment. The jobs provided must be able to make a highly educated

workforce well-absorbed. The government should also pay more attention to the minimum wage policy so that companies can provide a decent wage for each worker. Appropriate wages are expected to further increase the absorption of labor and the economy of a region. Wage increases should also be a motivation for the workforce to further improve skills. For future researchers, the results of this research are expected to be used as reference material for their research activities. Because this study still has limitations because the time period used is 16 years, the next researcher is expected to be able to examine it by adding other independent variables and years of research so as to be able to provide better research results.

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