

## The Minimum Wage and Its Implications to The Open Unemployment Rate Covid-19 Pandemic in West Java

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### ABSTRACT

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The escalation of Covid-19 cases in Indonesia really affected employment sector, as seen from the escalation of unemployment rate, especially in West Java. Based on data from Statistics Indonesia (BPS) of West Java Province in February 2021, the escalation in the open unemployment rate reached 8,75 million people. The impact of Covid-19 has also made business performer experience a decreasing income, making it difficult to pay wages. Unemployment causes psychological effects on individuals and reduces the level of welfare. The purpose of this study was to determine the effect of the minimum wage on the open unemployment rate in West Java. This study is associative research using a quantitative approach. The analytical method used in this study is simple regression analysis using secondary data obtained from Statistics Indonesia (BPS) in 2015-2020 in West Java Province. The results showed that the minimum wage has no effect on the open unemployment rate. It is expected that the wage policy be able to provide a balance between the capability of the company and a decent life

**Keywords:** Covid-19 Pandemic, Minimum Wage, Open Unemployment Rate, Statistic Indonesia, West Java

**JEL Classification:** E00, E24, J30, J64

## **INTRODUCTION**

The elevation of Covid-19 case has inflicted a shock to the economic condition of the community. Cases that occurred in the West Java Province until July 2021 reached 536,756 cases. The escalation in Covid-19 cases is in line with increase of unemployment number. Data obtained from Statistic Indonesia (BPS) in February 2021, it was recorded that the number of open unemployment rates reached 8.75 million people. This escalation is quite significant compared to the previous year which was only 6.93 million people.

The issue of unemployment definitely occur in every country or region which will cause psychological effects for each individual and affect the level of community welfare. (Marini & Putri, 2020) explain that the phenomenon of unemployment occurs due to a discrepancy number of the workforce with job opportunities. This phenomenon will only occur if the number of the workforce is much greater than the number of job opportunities and will have an impact on the decline in the economy and people's purchasing capacities.

The government enforces social distancing, works from home, and forces people to do any activity from home. This situation is detrimental to the company so that the unemployment rate increases (Bahagia & Putri, 2021). Unemployment is defined as a person who does not work at all, searching job, one week working a maximum of two days, or are trying to get a job (Boediono, 2014). Unemployment is also defined as part of the workforce who are currently not working and are looking for work (Mantra, 2012). This concept is defined in terms of open unemployment.

Economy indicators that may affect the unemployment rate including the minimum wage. The minimum wage is the salary given to employees as wages according to the minimum standards wage used (BPS, 2019). Workers set their minimum wage at a certain level. The enhancement in the minimum wage that is appropriate and qualified to meet the living needs of workers can increase household consumption and savings. Unemployment occurs due to an imbalance in the labor market. This situation illustrates that the number of workers is greater than the work required (Hasan & Sun'an, 2020).

The state of the open unemployment rate in West Java is still relatively high. Data obtained from Statistics Indonesia (BPS) in February 2019, explained that West Java was ranked first as the province with the highest open unemployment rate, reaching 7.73%. The high level of open unemployment rate is affected by industrial conditions because West Java has a high number of industries and influenced the residents from outside West Java to move to this province. However, currently many industries in West Java have finally moved to Central Java. This is affected by the high minimum wage in West Java and cause employment opportunities in West Java to decrease until finally affected high unemployment in West Java (Komalasari, 2019).

Community welfare will be created if the appropriate level of wages is appropriate. The government must implement a policy of applying wages that are in accordance with the living needs of workers in a decent manner. The high wages for entrepreneurs will increase the incurred cost by the company and can reduce when efficiency of spending, so the policy that will be taken by the entrepreneur is to reduce the workforce. This will result in an increase in unemployment rate (Effendy, 2019). Unemployment in a country or region must be considered and addressed because it can have an impact on the economic life of the community (Ayustia & Usman, 2019).

Research related to unemployment rate before this study was carried out by (Yacoub, 2019) which stated that the minimum wage had a positive and significant impact for unemployment in West Kalimantan. The results of (Mahihody et al., 2018) research found that the minimum wage has a negative and significant impact on the unemployment rate in Manado City. The results is differ from the research conducted by (Komalasari, 2019) that the minimum wage does not significantly affected unemployment in Indonesia.

The recency in this research is the situation at the time of covid-19 pandemic and the scope of the research was carried out in West Java. In addition, this study was conducted because of differences results from previous studies. This study is important to do to determine the effect of the minimum wage on the open unemployment rate during the Covid-19 period in West Java.

The hypotheses to be tested in this study are as follows:

H1: Minimum Wage has an effect on the open unemployment rate.

## RESEARCH METHOD

This research is associative research using quantitative approach which aims to determine the relationship between the minimum wage variable and the open unemployment rate in West Java. The data used in this study is secondary data sourced from the official publication of Statistics Indonesia (BPS) of West Java Province in 2015-2020. The target population is the minimum wage and the open unemployment rate in West Java Province.

The sample is part of the number and characteristics from the population. The sample used is the minimum wage and the open unemployment rate in West Java in 2015-2020. Data analysis in this study used simple regression analysis. According to (Sugiyono, 2018) simple regression analysis is used to determine the effect of variable (x) on variable (y) and determine the relationship between the two variables. Simple regression analysis using correlation coefficient, coefficient of determination, and test. All data analysis calculations using SPSS version 25.0 program.

## RESULTS

Test analyzes in this study is classical assumption test. The classical assumption the used is the Kolmogorov Smirnov test to measure the data to be studied is normally distributed or not. From the acquisition of the processed data, it was found that the research data were normally distributed and have qualified for a regression test. This study uses a simple regression analysis with statistical calculation SPSS version 25.0 program. The results of the simple regression test in this study are:

**Table 1.** Simple Regression Analysis Test Results

### Coefficients<sup>a</sup>.

Model.		Unstandardized Coefficients.		Std Coefficients.	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	725.383	219.032		3.312	.030
	Minimum Wage	.000	.000	.330	.699	.523

a. Dependent Variable: Open Unemployment Rate

Based on table 1. The simple regression equation formed from this study is:

$$Y = 3.312 + 0.699X$$

Partial hypothesis testing – t test based on table 1, then the result of hypothesis testing in this study are as follows: The significance value of the minimum wage variable is 0.523 which is greater than 0.05 ( $0.053 > 0.05$ ) in other words the minimum wage has no effect on the open unemployment rate.

The coefficient of determination analysis is used to determine how much impact for the minimum wage on the open unemployment rate. The results of the analysis of the coefficient of determination are:

**Table 2.** Coefficient of Determination Test

**Model Summary.**

Model	R	R Square.	Adj R Square	Standard Error of the Estimate.
1	.330 <sup>a</sup>	.109	-.114	94.400

a. Predictors: (Constant), Minimum Wage

b. Dependent Variable: Open Unemployment Rate

Based on table 2, the value of R square is 0.109. This means that 10.9% of the open unemployment rate is influenced by the minimum wage.

## DISCUSSION

Based on a significant value of  $0.523 > 0.05$ , it means that the minimum wage variable has no effect on the open unemployment rate variable. The minimum wage for the province of West Java has no significant effect on the unemployment rate in the province of West Java in 2015-2020. The increase in the West Java minimum wage has no effect on unemployment in West Java province because people belonging to the labor force work more in the non-government sector, where the wages given to workers depend on the owner of the company or wage provider. The current covid-19 pandemic has also made many people in West Java finally set up their own businesses, so that their income is not affected by the minimum wage set by the government.

## CONCLUSION

The results of this study concluded that minimum wage has no effect on the open unemployment rate in West Java. This is because people whom belong to the labor force mostly work in the non-government sector, where the wages given to workers depend on the company owner or wage provider. The current covid-19 pandemic has also made many people in West Java finally set up their own businesses, so that their income is not affected by the minimum wage set by the government.

There are still many shortcomings in this study based on the discussion and conclusions from the research of the research. Suggestions that can be accomplished by further researchers, including adding variables that may affect the unemployment rate such as economic growth, inflation, and investment. The period used can be longer so that the results are more representative and the scope of the research can be wider, not only in West Java Province

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