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Analysis of The Relationship Between Informal Labor Market Growth, Availability of Job Opportunities and Wage Structure Using A Multidimensional Perspectives

Donny Dharmawan^{1✉}, Sugeng Karyadi², Muhammad Irvan³,

Dicky Jhon Anderson Butarbutar⁴, Musran Munizu⁵

(1)Universitas Krisnadwipayana

(2)Universitas Lambung Mangkurat

(3)Sekolah Tinggi Ilmu ekonomi Mujahidin

(4)Bina Nusantara University

(5)Universitas Hasanuddin

Email: donny28dh@gmail.com[✉]

Abstrak

Penelitian ini bertujuan untuk mengetahui bagaimana fenomena terkait dengan defisit pekerjaan yang layak mempengaruhi struktur pasar tenaga kerja. Penelitian ini menggunakan metode ekonometrik dengan tiga metode utama yaitu matriks transisi, estimasi kesenjangan pendapatan dan model campuran. Hasil analisis menunjukkan bahwa meskipun terdapat upaya pertumbuhan ekonomi dan formalisasi, ketersediaan lapangan kerja informal masih merupakan permasalahan yang signifikan. Hasil estimasi kesenjangan pendapatan antara pekerja sektor formal yang mengalami defisit di berbagai dimensi dan yang tidak mengalami defisit menunjukkan perbedaan yang signifikan.

Kata Kunci: *Defisit, Pekerjaan, Informal, Pertumbuhan Ekonomi, Tenaga Kerja*

Abstract

This research aims to determine how phenomena related to the decent work deficit affect the structure of the labor market. This research uses econometric methods with three main methods, namely transition matrices, income gap estimation and mixed models. The results of the analysis show that despite efforts for economic growth and formalization, the availability of informal employment opportunities is still a significant problem. The results of estimating the income gap between formal sector workers who experience deficits in various dimensions and those who do not experience deficits show significant differences.

Keyword: *Deficit, Employment, Informal, Economic Growth, Labor*

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INTRODUCTION

The problem of employment informality has persisted for more than 40 years and continues to be a major challenge in many countries that are seeking to progressively reduce it. The concept of informality, characterized by its slow pace of change, leads to a variety of solutions that may not always be coherent in addressing this problem. Employment informality spans multiple dimensions, including job insecurity, a lack of social protection, low wages, and poor working conditions (Afifah et al., 2018). Factors influencing informality include an economic structure dominated by the agricultural or small industrial sectors, non-inclusive or stagnant economic growth, strict labor regulations without effective enforcement mechanisms, high tax burdens with no incentives for formality, and a lack of access to education and adequate training (Eksan & Dharmawan, 2020). Employment informality is the result of various interrelated factors, including macroeconomic conditions such as recessions or economic crises, ineffective or inconsistent employment policies, and cultural and social norms that accept informal employment. Informality is also not homogeneous and can vary based on the economic sector, geographic region, and type of work (Dharmawan, 2017).

The lack of consensus regarding the definition and measurement of informality makes it difficult to develop effective policies, with survey and registration approaches being some of the methods used (Arliani et al., 2019). Proposals for addressing the problem of informality include regulatory reform, providing incentives and support for small and medium-sized enterprises, strengthening social protection, improving education and training, and enhancing awareness and communication about the benefits and rights of formal employment (Tannady & Sitorus, 2017). Addressing employment informality requires a holistic and coordinated approach that takes into account the complexity and heterogeneity of the phenomenon. Solutions that work in one country may not be effective in another, so it is important to understand the local context and develop a specific and coherent strategy for each situation. In addition, collaboration between the government, the private sector, and civil society is essential to creating a more inclusive and formal work environment (Rio & Dharmawan, 2020).

Workers who carry out their activities in the informal economy sector not only experience a legal vacuum characterized by inadequate security and social protection but also often do not enjoy optimal working conditions. Therefore, compliance with rights and standards in the workplace is a necessary but not sufficient condition for obtaining quality work. The most consistent way to analyze the informal economy situation is to use the concept of a decent work deficit. This concept has a multidimensional character that combines four main dimensions (Edward et al., 2024). The first dimension refers to work and employment

itself, with a broader understanding of participation in the economy and society. This includes access to work that provides a decent living and opportunities for personal development and involvement in society. The second dimension includes basic rights at work. At this level, the concept of decent work necessitates that these rights extend beyond basic labor rights, serving as a foundation for the establishment and development of other rights and capabilities (Zunaidah et al., 2024). In the third dimension, this concept emphasizes the need for social protection and improving safe working practices and conditions as important needs. Protecting everyone from the various risks and contingencies that may arise in the workplace, regardless of its location, is the essence of this dimension (Budiarto et al., 2024). This includes protection against work accidents, occupational diseases, and social security such as pensions and health insurance. The final dimension relates to representation and social dialogue, which aims to create a framework that supports the right of association and enables workers' participation in social dialogue structures and processes (Rahayu et al., 2018). Ensuring the hearing and consideration of workers' voices in decisions that impact them is crucial. Although these four dimensions of decent work have their own characteristics, each complements the other and is closely interrelated.

RESEARCH METHOD

The research bases its empirical analysis on regional microdata from the conducted survey. The main idea of this study is supported by real-world evidence using the econometric method, which has three main parts namely transition matrices, income gap estimation with fixed effects, and restricted mixture models. This approach provides deeper insight into the structure of the labor market and helps in formulating more effective and targeted policies. By using these three econometric methods, this research seeks to provide strong empirical evidence regarding the dynamics of employment and income inequality in urban areas. It is hoped that it can provide valuable insights for policymakers to design more effective interventions to overcome the problem of informal employment and improve the welfare of workers in both formal and informal sectors.

RESULT AND DISCUSSION

In general, the estimation results confirm the existence of a wage penalty associated with non-registration and a decent work deficit, which is statistically significant in each panel. When workers transition from registered employment to formal sector employment, or from jobs with decent conditions to jobs with a decent work deficit, their earnings decrease, as indicated by the negative sign of the estimated gap between wage earners in the formal

sector. This suggests that such displacement is, in general, associated with a decline in labor income. In certain cases, we observed significant maximum gaps. In the first panel, the gap between unregistered and registered workers and task qualifications is 40%. In the second panel, the gap between formal sector workers with and without deficits in all dimensions of decent work is 160. In the final panel, the gap between formal sector employees with deficits in all dimensions of decent work and those without deficits is 90%, without additional controls. The gap in the second panel is the largest of the three panels, indicating that formal sector workers who move from decent work to jobs with deficits across all dimensions of decent work suffer a larger earnings penalty compared to those who do not experience such a move. This confirms that the loss of decent work status has a significant negative impact on labor income.

The first panel considers the rights dimension, while the second and last panels consider all social protection dimensions, yielding the maximum calculated gap between formal sector workers with and without social security and protection deficits. These earnings differences are higher by 5.9, 155, and 60, respectively, compared with the differences obtained between workers with and without other types of deficits in each of these panels. This could suggest that substandard working conditions in the formal sector lead to, on average, wage penalties for workers transitioning from jobs without a deficit to those with a social security and protection deficit, and wage increases for those making the opposite transition, even after accounting for the influence of observable worker characteristics and characteristics that remain constant across time and work sectors.

The temporal evolution of the estimated wage gap shows an interesting pattern, with most gaps increasing and then decreasing in the recent period. This is interesting because most of the expected income differences increased significantly over the period under review. Given the usual expectation of a negative correlation between inadequate working conditions and national income growth, this result may come as a surprise. However, there are several possible explanations for this phenomenon. First, factors other than inadequate working conditions may have had a greater impact on national income growth over the period. Second, there may be internal factors in the economic structure that influence the relationship between inadequate working conditions and national income growth, such as industrial structure or unequal income distribution. Further research may be necessary in this context to gain a deeper understanding of the relationship between inadequate working conditions and national income growth, along with other potential influences.

The results have important political implications. Knowing the level and evolution of income disparities is relevant for formulating effective public policies aimed at closing these

gaps. Additionally, the wage gap between formal sector workers with and without labor rights deficits of up to 50% may be due to institutional and legal failures. Likewise, the 45% income gap associated with underenrollment, controlling for an employment deficit, could have a direct distributional effect on the level and growth of national income. Therefore, policies that aim to produce progress in some or all dimensions can also have distributional impacts aimed at increasing social justice. However, a prolonged and persistent process of economic growth must accompany public policy to increase the likelihood of this group of workers securing long-term decent work conditions. In conclusion, the results obtained are consistent with the formal sector segmentation hypothesis.

The results of the analysis show a negative relationship between labor income and the absence of registration or decent working conditions. If the assumptions underlying consistency are met, this negative correlation also means that in the same sector, namely a sector consisting of a number of formal companies, there are differences in salary and employment mechanisms for registered and unregistered workers, as well as for registered and unregistered workers and without deficits in several dimensions. However, it is necessary to remember the weaknesses of previously applied econometric methods. First, the lack of statistical significance in some estimation results may affect confidence in the conclusions drawn. Second, the underlying assumptions must be considered carefully, as violations of these assumptions can lead to bias in the estimates. Therefore, we should interpret these results cautiously, considering the assumptions and methods used in the analysis.

Formal employment is often a scarce commodity, especially in developing countries. This can be one of the main factors causing a negative earnings gap between formal and informal workers, as barriers to entering registered positions in the formal sector can make informal workers more vulnerable to exploitation and lower pay. Although the panel used in this study may be short, it can still provide consistent parameter estimates in situations where individual effects and conditional means are not identified. Although there are some practical drawbacks, such as the impossibility of estimating time-invariant regression coefficients, the assumptions analyzed in this study can support the consistency of the desired parameter estimates. Despite several limitations, the study's results offer valuable insights into informal employment and related income disparities, enabling the design of more effective policies to tackle this issue.

The analysis results reveal interesting characteristics of the formal sector, particularly in its segment structure. Mixed model estimates show that the formal sector has a complex segment structure, with most firms belonging to the second segment accounting for 73% to 91% of the sector in different periods. The first segment, which is relatively small, may

represent small or newly established companies that have limitations in registration and compliance with labor and social regulations. The second segment, which is larger in size, is likely to consist of medium and large companies that have registered the majority of their sales. However, this segment still exhibits variations in labor and social regulation compliance, as evidenced by the existence of various remuneration mechanisms. It is important to note that the third segment, which is very small in size, may represent disadvantaged parts of the formal sector, such as contract or part-time workers who may not have adequate job security or social protection. This analysis shows that the formal sector is disproportionate in terms of its segment structure, with most companies falling into larger segments, but there is still variation in the level of compliance with labor and social regulations among these companies. This shows the complexity of formal employment structures and provides important insights for designing more effective policies to improve working conditions and equality in the formal sector.

The conclusion from the results of this analysis is that the formal sector is not homogeneous but consists of at least three different segments. This shows that workers in the formal sector face different wage conditions, even in sectors that are traditionally considered homogeneous. Observable attributes, such as education or work experience, included in the estimation model cannot solely explain these differences. Furthermore, this salary condition can be worse if we consider that there are certain unobserved skills and attributes that influence salary determination in some segments of the formal sector compared to other segments. Despite the expansion of formal employment opportunities during periods of economic growth and formalization efforts, the quality of job placements, especially in terms of salaries, does not appear to have improved significantly. These findings provide additional empirical evidence supporting the formal sector segmentation hypothesis, at least during the period studied. This highlights the importance of considering the complexities of formal sector structures when designing more inclusive and equitable employment policies.

CONCLUSION

An analysis of the characteristics of labor informality in the formal sector shows that despite economic growth and formalization efforts, informal employment remains a significant issue. Studies of the transition matrix show that most informal workers in the formal sector tend to remain in that category, with only a few successfully moving to registered employment in the same sector. This group of workers, although difficult to penetrate through inspection and regularization policies, became the most visible in the formal labor structure.

These findings have important implications for the structure of the formal sector, indicating differences in wage mechanisms between different segments of workers. In addition, estimates of the number of formal sector segments indicate the existence of at least three components with different wage mechanisms. This shows that the formal sector is highly disproportionate in terms of the size of its segments, highlighting the complexities of the formal sector structure that need to be considered in designing more inclusive and equitable employment policies.

The research results show that the formal sector and labor market segmentation hypothesis make sense. The traditional model of the labor market with a homogeneous formal sector is not suitable for current conditions. These findings are important for the development of policies aimed at reducing informality in productive units that are vulnerable to government surveillance policies. Strategies to improve formality and decent work must be comprehensive, covering a wide range of policy areas. This includes eliminating the negative aspects of informality, maintaining job creation in the formal sector, and protecting workers and economic units.

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