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The analysis of underemployment in Indonesia: determinants and its implication

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Abstract

Underemployment is workers who work less than normal working hours and would willing to accept another job. Using the 2011 National Socio-Economic Survey, this study examines, firstly, what factors in terms of demographic and economic factors that influence the underemployment in Indonesia. A multinomial logit model is employed to see the probability of being underemployed. Secondly, this study tries to examine the effect of the underemployed on the welfare of workers as measured by their poverty status. This study finds that underemployed is more likely to be categorized as poor households because of their lower utilization in the labour market.

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1. Introduction

Indonesia is the fourth most populous country in the world after China, India, and the United States with a total population of more than 234 million people in the 2010 (based on the 2010 Population Census). The working age population (defined as 15 years of age and older) accounts for approximately 172 million people of the 234 million population, growing significantly by about 2.4% per year. In line with the growth in working age population, the labour force number in 2010 was about 116 million with a stable Labour Force Participation Rate of 66%-68% per year. Although there was a significant number of labour force, the Indonesian economy faces the jobless growth (World Bank, 2010). In other words, the economic growth frequently fails to increase employment, characterized by

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a decrease in particularly non-agricultural employment elasticity. The non-agricultural employment, particularly service and industrial sectors, became less labour-intensive, resulting in relatively poor performance in job creation. The high costs of doing business in Indonesia, including the generous severance regulation and minimum wage policy, make a decrease in the growth of labour-intensive industries more severe.

One of the important signals in the labour market performances is underemployment. Based on the Central Bureau of Statistics definition, underemployment is defined as working less than 35 hours per week and would be willing to accept another job (involuntarily working less than normal hours). In other words, underemployed means that their labour capacity does not utilized optimally. This is different with part-time employment where they are working less than 35 hours per week but not willing to accept additional or another job (voluntarily working less than normal hours), including housewife and part-time workers who are students.

Using this definition, underemployment rate in Indonesia was around 30 percent of the total labour force. Although the percentage seems to be quite high, it is actually 'normal' for a developing country like Indonesia with a high proportion of agricultural workers and a significant number of workers living in rural areas (Manning, 2003). In practice, the underemployment in Indonesia remains one of the major concerns affecting many workers.

The first objective of this study is to examine the determinants of underemployment in Indonesia. Wiebe (1996) stated that females generally experience a higher rate of underemployment rate than males. Female workers tend to work shorter hours than male workers because of their domestic responsibilities and also their vulnerable position in the labour market compared to males. Higher rate of underemployment is also likely to be found among rural workers due to the dominant role of agriculture sector with its seasonal, traditional, and shorter working hours. The high share of underemployment in rural areas has however declined over time because of the massive urbanization and the structural transformation from agriculture to the manufacturing or modern sector (Dhanani, 2004). Moreover, underemployment in Indonesia is massive for some specific workers such young workers with less working experience.

The second objective of this study is to examine the effect of the underemployment on the welfare of the workers measured by their poverty status. In this case, our prediction is that workers who are employed as underemployed are more likely to be categorized in the poor households because of their inability to get full-time and decent employment. The connection between underemployment and poverty is also consistent with Sugiyarto et al (2006), stating that most of the underemployment is coming from low income households so that they could not afford to be unemployed due to the lack of unemployment benefits and better job opportunities. Most of them would also like to have a new job given their low pay and poor working conditions (Sugiyarto et al. 2006).

The outline of this paper is as follow. The second section of this paper discusses the research methodology used in this study. The empirical results are discussed in the third section. Finally, the last section concludes the empirical findings

2. Research Methodology

To examine the determinants of underemployment in Indonesia, a multinomial logit model is estimated by a maximum likelihood method. The dependent variable includes three categories of employment based on their hours of work and whether their employment is voluntarily or involuntarily. Specifically, the dependent variable used in the model is represented by j :

$j = 0$: working less than 35 hours per week involuntarily (underemployed);

$j = 1$: working less than 35 hours per week voluntarily (part-time employment);

$j = 2$: working at least 35 hours per week (full-time employment).

Although the focus of this study is the underemployed, part-time employment and full-time employment are added as references.

The independent variables used in the model include some individual characteristics consisting of gender, educational backgrounds, occupation sectors, and age. To capture the demand side of labour market, the macroeconomics variables such as provincial minimum wage, the Gross Regional Domestic Product and unemployment rate are included as the independent variables.

In the second equation, this study estimates the effect of the underemployment on the welfare of the workers as measured by their poverty status. In this case, a logit estimate is used where 1 = poor households and 0 = non-poor

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