

ABSTRACT

Labor supply plays a crucial role in driving economic performance, particularly in terms of productivity improvement and economic growth. Empirically, several factors have been identified as determinants of labor supply decisions, including wages, non-wages, education, gender, age, training status, work experience, and marital status. Nevertheless, inconsistencies remain in the findings of prior studies regarding the direction and magnitude of these influences. Accordingly, this study seeks to examine the effect of these factors on the labor supply of informal sector workers in Indonesia in 2023.

This study employs the Ordinary Least Square (OLS) estimation method using secondary data drawn from the 2023 National Labor Force Survey (Sakernas), comprising 262,789 observations for the baseline model and 133,261 observations for the informal sector estimation. To address heteroscedasticity, white robust standard errors are applied throughout the estimation. The variables analyzed consist of wages, squared wages, non-wages income, education, gender, age, training status, work experience, and marital status.

The baseline model results reveal that wages exert a positive and significant effect on labor supply, whereas squared wages, non-wages income, education, age, training status, and work experience demonstrate a negative and significant effect on informal sector labor supply. Marital status, however, fails to produce a statistically significant effect in the baseline model. Upon restricting the sample to informal sector workers exclusively, wages, education, and marital status are found to positively and significantly affect labor supply, while squared wages, age, gender, training status, non-wages income, and work experience negatively and significantly influence labor supply. The opposing signs of the wage and squared wage coefficients provide evidence of a backward bending labor supply curve phenomenon among informal sector workers in Indonesia.

Keywords: labour supply, informal sector, working hours, wages, Sakernas 2023.