

ABSTRACT

The demographic bonus can be strategic opportunity to accelerate development with support of productive age human resources, but it can cause various problems if not handled well, such as unemployment. Labor is one of the factors that needed in the economy. However, Indonesia is still have employment problems, where the unemployment rate is quite high and labor absorption is not yet optimum. This study aims to analyze the factors that influence labor absorption in Indonesia using panel data for 34 provinces in Indonesia from 2015-2019. The analytical methode used is Ordinary Least Square (OLS) with the Fixed Effect Model (FEM). The independent variables used in this research are minimum wage, gross fixed capital formation, inflation, household consumption, and government spending. Meanwhile, the dependent variables used in this reasearch is labor absorption which is proxied by the number of employment.

The result of this research show that gross fixed capital formation and household consumption have a positive and significant effect on labor absorption in Indonesia in 2015-2019. Inflation have a negative and significant effect on labor absorption in Indonesia in 2015-2019. Meanwhile, the minimum wage and government spending has positive and insignificant effect on labor absorption. It's because government spending in several province is quite low and has large difference with several provinces in Java. Government spending also doesn't have a direct effect on labor demand, so it influences the research result to be insignificant.

Keywords: *Labor Absorption, Minimum Wage, Capital, Inflation, Consumption, Government Spending, Fixed Effect Model*

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