

CHAPTER I

INTRODUCTION

A. Background

Economic development is the process of fusion between population growth and technological advancement. In this case, Todaro & Smith (2012) defined development as multidimensional process involving major changes in the structure of social attitudes, institutional national and the acceleration of economic growth, the reduction and elimination of poverty uneven absolute. Hence economic development is the effort to improve the standard of living of a nation that is often measured by real per-capita income low high.

While some economists developed a theory of economic development based on the production capacity of manpower in the development process, which was then known as the investment in human capital (Schultz, 1961). This concept assume that human beings are a form of capital, which is reflected in the form of knowledge, the idea, creativity, skills, and work productivity. Therefore, investing in human capital is part of an investment in informal or formal education.

The word education has no fixed essential meaning. It is a complex, evolving, and shaped by the norms prevailing at a given time and in a given place. Mankiw et al (1992) argued that education is an investment in human capital-the accumulation of investment in people such as education and on-the-job training.

In particular, when people have higher educational attainment, the

quality of productivity will be better. While there is an increment of productivity, the economic growth will be increased as well, which then improve the economy in General (national), and the welfare of the nation. Since education has an important role in economic development in creating qualified human capital, therefore, investment in human capital (education) is paramount.

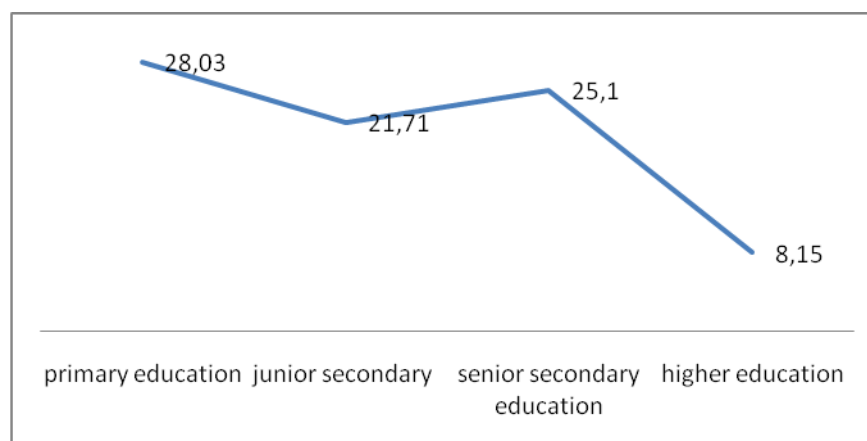
In terms of individual, education is a basic needs of everyone. Generally, many people attend to enter education to gain skills and knowledge which are used later when they involve in the labor market. It is obvious that a good education will give people more hope on better future income. This microeconomic reason has been proven scientifically by many scholars and has strong evidence that both education and earnings are positively correlated. For instance, Mincer (1974) argued that educational attainment has a strong positive correlation on earnings. Moreover, Becker (1962) argued that in order to increase earnings, labor needs to increase their educational attainment.

In Indonesia, it is compulsory that people must have at least 12 years of education. The cost of education will be provided by the government, especially for those who are poor or having financial difficulty. This program aims to improve the quality of human capital so that may increase their productivity and improve the chance to receive a better job and wage later in the labor market.

As a contry is still developing, education attainment is one of the main factors for increasing the number of skilled labor. Through education, it would

improve the quality of human capital therefore, it can be more productive and give positive effect to economic development.

Figure 1. 1
A Percentage of Levels Completed Education by 15 Years of Ages and Over in Indonesia 2017



Source: Susenas BPS (2017)

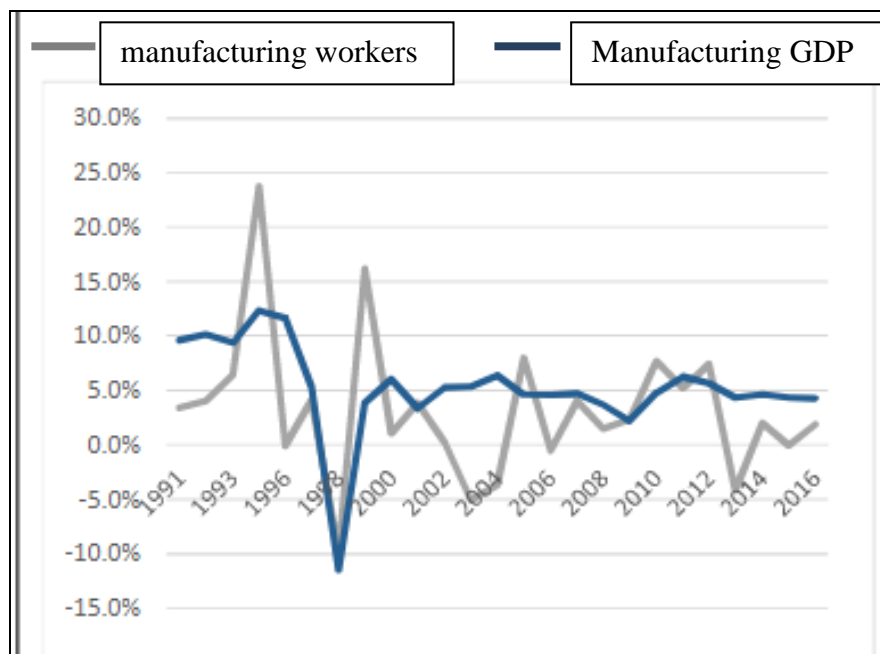
In general, the level of education in Indonesia achieves secondary education. The data from Susenas (2017) show only one of the four populations with age of 15 and over that has been completed senior secondary education. Its about 8 percent only which has been completed in higher education.

Improving quality of human resources can be done by human capital investment, because it is expected that human resources can increase the productivity. Human capital will rise with a process of investment activities in education, formal and non formal. Education is a process of investment activities that increases expertise (investment in human capital). According to Becker (1975) labor production power has a positive relationship with the level of education and training. The higher the level of education and training

possessed by someone, the more productive the individual.

In addition, Thomas (1996) argues by using the Mincerian Equation model for finding out the investments in education and increased work experience. He also stated that education, work experience, work hours per week, age and area of living give positive impact on wages.

Figure 1. 2
The Growth of Manufacturing and Employment in GDP 1991-2016



Source: Central Bureau of Statistic (BPS, 2016)

Based on the figure above, it shows the growth of employment in the manufacturing sector and the manufacturing sector's contribution toward to Indonesia's Gross Domestic Product (GDP). According to Indonesia Statistic Bureau (BPS, 2016), agriculture remains the largest sector that has the highest number of employment, the agriculture sector absorbs most workers in Indonesia (37.8 million people), followed by the trade sector which are (26.7

million), the services sector (19.5 million) and the manufacturing sector has (15.5 million). Indonesia's total workforce numbers 118.4 million people. However, there is an interesting trend where the growth of employment in this sector is getting higher every year. In particular, the number of people that employed in the manufacturing sector was around 11.89 million people in 2006 and increased to 15.54 million people by the end of 2016, or with an average increase of about 400 thousand people per year. Based on recent data show that the growth of employment in the manufacturing sector gradually increase in every single year. Moreover, The Minister of Industry said that there were around 17.01 million workers in the manufacturing sector. The number is higher compared to the previous year. This achievement makes the manufacturing sector contributed 14 percent of the total workforce of 124.5 million people in Indonesia. Based on the explanation above, this research aims to provide evidence about the effect of educational attainment and work experiences on the wage in the Indonesian manufacturing sector.

B. Scope of the Research

This study was limited to the discussion about the effect of wage in Indonesian manufacturing sector. Factors affecting the wage in the Indonesia manufacturing sector were limited to education, experience, age, area of living and subjective health status. The dependent variable was Wage This study used the IFLS wave 5.

C. Research Question

Based on the above description of the background, then the formulation

of the problems in this study are:

1. How does years of education affect wage in Indonesian manufacturing sector?
2. How does work experiences affect wage in Indonesian manufacturing sector?
3. How do social factors such as age, area of living and also health status affect wage in Indonesian manufacturing sector?

D. Research Objective

This research aims to provide an evidence about the relationship between education attainment and wage in Indonesian manufacturing sector. In particular, the long-term target of this study is to provide a direct relationship between years of education of people and their income. Moreover, the specific target of this research is to produce educational policy that can have a direct impact on earnings especially in manufacturing sector.

E. Contributions

This study is expected to provide the following contributions:

1. Enrich the literature of what affects on wage manufacturing sector in Indonesia.
2. Give a reference for Indonesian government relative to the influence of educational attainment on wages so that the government can improve the quality of education that will affect to increase livelihood and welfare of Indonesian people in the future.