

# **A Spatial Panel Approach to Identifying the Impact of Minimum Wages on Employment and Unemployment in Indonesia**

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## **Abstract**

With the ongoing debate on the employment impact of minimum wages, this paper contributes to the subject by utilizing spatial econometric techniques to account for geographical correlation among provinces in Indonesia. Using data from the Indonesian Labor Force Survey from 2001-2015, we found estimation results of the spatial Durbin model to be statistically significant and greater in magnitude in contrast to the insignificant coefficients resulting from standard fixed effects estimation. Our results provide evidence that increases in minimum wages may lead to higher employment and unemployment levels, mainly due to spatial spillovers of the minimum wage hike. This study concludes that ignoring spatial correlation may lead to underestimation of the impact of minimum wages on employment and unemployment in Indonesia.