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## **WORKING PAPER N° 197**

**Labour Market Segmentation in West Sumatra**

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# Labour Market Segmentation in West Sumatra

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## I. Introduction

It is generally assumed that wage-labour is the most efficient and productive form of work. A well functioning labour-market is seen as a guarantee of achieving economic growth. In Indonesia, however, most work is still organised as self-employment and as unpaid family labour in the informal sector, or as household work in subsistence production for self-consumption (Evers 1992).

Census data show that from 1980 to 1990 wage labour has increased by more than ten million workers from 28.2% to 34.9% of the labour force. The Situation in West-Sumatra mirrors this trend with an increase of 5.6% from 21.6% to 27.2% (Biro Pusat Statistik 1993). For Indonesia the proportion of self-employment and family labour in the informal sector has declined in all sectors of the economy, except in transport. For West-Sumatra agriculture, construction and transportation declined, whereas all other sectors increased.

There are indications that the growth of wage labour is accompanied by labour market segmentation. As in a segmented labour market certain sectors of the economy or certain occupations are only accessible by certain social groups, the most productive allocation of labour across employment sectors is severely constrained.

The following paper reports on an empirical study on labour market segmentation by sex, ethnicity, kinship, locality, and strategic group membership in an Indonesian province. The data are derived from structured interviews with 506 respondents and 30 intensive interviews of several hours duration each<sup>1</sup>.

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## II. Labour Market Segmentation: The Theoretical Debate

Following neo-classical theory market behaviour is mostly a logical deduction from certain assumptions of which four are particularly crucial:

- individuals are constantly and efficiently maximising their satisfactions as consumers and their profits as producers;
- markets function impersonally, i.e. any individual can enter any market to buy goods and services that he needs and to sell those that he produces on the same terms as any other individual, so that, by the force of competition, the same price rules throughout the market for any good or service;
- demand and supply of any good and service are significantly price elastic;
- the price is flexible and responsive to divergence between supply and demand so that it adjusts speedily and promptly to equilibrium level where supply equals demand.

In this model, the various factors influencing wages and employment are neatly separated into two distinct groups: those affecting supply and those affecting demand and both, employer and worker are operating on a highly rational basis being solely interested in maximising their income or selling their workforce for the best prize.

Of central importance is the mobility of labour in the labour market, that is, the shifting of human resources into and out of the labour force and among firms, occupations, industries and geographic localities. It is taken for granted that labour supply adjusts to changes in the level and composition of the demand for labour.

Persistent inequalities in the labour market competition led to the development of labour market segmentation theory in the 1970s (Wilkinson 1981:vii), which claims that the labour market has a dual structure, i.e. is divided into two sectors: The better paid and higher valued jobs in the labour market can be found in the primary sector whereas the secondary sector is characterised by low wages, poor working conditions, a lack of job security and low status (see Cain 1976; Edwards,

Reich and Gordon 1973; Reich, Gordon and Edwards 1973; Doeringer & Piore 1971).

But the labour market has turned out to be more complex and much criticism has been levelled against dualism. The main criticism, based on extensive empirical research, draw the attention to the fact that most industrial sectors "were represented by enterprises in both sectors underscoring the limitations of trying to demarcate economic segments strictly along industrial lines" (Baron & Bielby 1984:464). Recently interest in labour market segmentation has been revived and a number of empirical studies have been published (Assaad 1993; Banerji 1983; Boje 1986; House 1982; Jacobs 1989; Manning 1979a, b; Peck 1989; Telles 1993; Roemer 1986; Stretton 1983).

Contemporary segmentation theories see the functioning of the labour market as follows: "At the core of labor market segmentation are social groups and institutions. The processes governing allocation and pricing within internal labor markets are *social*, opposed either to competitive processes or to instrumental calculations. The marginal labor force commitment of the groups which creates the potential for a viable secondary sector of a dual labor market is *social*. The structure which distinguish professional and managerial workers from other members of the labour force and provide their distinctive education and training are also *social*. To understand these phenomena, one therefore needs a paradigm which recognizes and encompasses social, as opposed to individual, phenomena" (Piore 1983:252).

Labour institutions are shaped by social practices and cultural values. They lead to networks of access to job opportunities and may thus either facilitate or hinder market clearance and the matching of labour demand and supply. They also largely determine working conditions, wage setting and other types of enumeration.

Sociologists and Anthropologists have long observed the tendency of societies to form ranks in hierarchies which are based on a persons sex, family connections, ethnicity, religion, strategic group membership etc. Access to resources is as well

based on such traits and it goes without saying, that these characteristics do not necessarily correlate with the qualities which are necessary for persons placed in certain ranks of our social and economic structure. Looking at the labour market, and the distribution of people among jobs, we can observe the extension of the above mentioned nature of existing social relations rather than the result of a continuing search on the part of employers for talent wherever it might be found.

Segmentation occurs when the labour market or the labour process is divided into separate "sub markets or sub processes, or segments, distinguished by different characteristics, behavioral rules, and working conditions" (Edwards, Reich, Gordon 1973:XI). Of particular interest is the explanation of wage differences for similar jobs, which in classical labour market theories are difficult to explain. In segmented labour markets, however, "wages do not equilibrate for similarly endowed workers in different parts of the market due to different patterns of wage setting" (Jones and Roemer 1989:1863).

Occupational segmentation exists when individuals are unable to make career/job choices freely, unfettered by implicit barriers concerning their sex, ethnicity, non-membership in certain strategic groups etc. Occupational segmentation also exists when employers have fixed perceptions about the sex, ethnicity etc. of their employees and select employees referring to these criteria.

But segmentation also exists when for the same type of work different wages are paid depending on gender, ethnicity, kinship, locality, formal education, strategic group membership and other factors.

The results of occupational segmentation are twofold:

- people tend to be segmented or segregate into certain jobs, i.e. employment barriers exist that make free choice impossible;
- as a result, labour market clearance is impossible or at least made more difficult.

### III. The Survey

To investigate the extent of labour market integration and labour market segmentation a survey with 506 respondents has been conducted in a rural and an urban area in West-Sumatra.

#### 1. The Survey Area

The research was carried out in Padang, the provinces capital and in a rural area in Kabupaten (regency) Agam near the district town of Bukittinggi. In Padang three Kelurahan have been chosen for the survey, because of their ethnic heterogeneity and their differences in the populations socio-economic background. The Kelurahan are Rawang Barat and Pasar Gadang in Kecamatan Padang Selatan and Kelurahan Parupuk Tabing in Kecamatan Koto Tengah.

Kelurahan Rawang Barat consists of two different parts, the old, village like settlement of the indigenous population, which is placed at the main road to Teluk Bayur and a newly established middle class urban-like housing estate located in the back of the old settlement.

In the beginning of 1993, 1419 households were counted in the kelurahan with a total population of 6976.

The kelurahan administratively consists of 10 RW (*Rukun Warga*) and 53 RT (*Rukun Tetangga*). RW 1-4 consists of the long established settlement, whereas RW 5-10 forms the newly build housing estate Jondul. The indigenous population is Minangkabau and Javanese, who already live in that area since more than 15 to 20 years. The Jondul population of recent settlers is ethnically more heterogeneous with Minang, Javanese and Batak residents and quite a number of Chinese (643 people, 9.2%) living there. The long established part of the kelurahan has village character. Muddy paths are leading from one house to the other and the first impression of a poor settlements finds its verification in the socio-economic background of the population. The majority is working in low paid blue collar jobs - quite a number of them in the nearby harbour of Teluk Bayur. Many houses are in a bad condition and poorly furnished which stands in sharp contrast to the

bordering housing estate of Jondul with its modern urban style houses which are all surrounded by small gardens. Jondul is a middle class housing estate of civil servants, employers and private sector employees. Whereas the smaller houses of lower paid civil servants and employees are placed at the entrance of the estate, the large houses are situated in the back.

Kelurahan Pasar Gadang is located in the old part of the city with many picturesque but already damaged houses and wooden storages built about 100 years ago. Pasar Gadang is a trading area since more than 150 years and although trade activities declined they still dominate the area. The main trading goods are spices, rice and cement from the Indarung cement factory. Pasar Gadang is situated at the fringe of one road which changes its name four times. Whereas Jln Pasar Batipuh, Jln Pasar Hilir and Jln Pasar Mudik are part of the old city of Padang, the area of Jln Baru Pasar Mudik is of younger age and excluded from the Kelurahan busy trading life. It is a housing area with nicely renovated Dutch houses and newly build settlements. With two exceptions, all civil servants are living in this area and most of the people with better paid jobs in the private sector. Nearly half of the population in the old part of Pasar Gadang are small traders, workman or labourers with small wages and a low standard of living. In the back of Jln Pasar Mudik we even find a slum-like area with people living below the poverty line.

With only 344 families living in the area in 1993 and a total population of 1944 it is the smallest kelurahan in Padang. 343 (17.6%) inhabitants are Chinese. The majority of these 344 families live in Pasar Gadang since more than three generations. Trade is dominated by Minangkabau people with few Chinese and Batak traders. Quite a number of these traders lived in Pasar Gadang before but, with the growing success of their businesses, moved to more developed and modern areas of the city. Thus the number of families living in Pasar Gadang is by far outnumbered by the numbers of houses. Nearly 50% of the houses are storages. Only two families are still living in Jl Pasar Batipuh, whereas the rest of the houses are storages.

In contrast to other parts of the city, where street life starts with the cooler hours of the late afternoon, Pasar Gadang is overcrowded from early morning until early afternoon with empty streets in the afternoon and evening. According to the Lurah



Pasar Gadang is an area of active in- and out migration. Many people from outside Padang first move to Pasar Gadang for one or two month before they find another place to stay.

In contrast to Pasar Gadang, Kelurahan Parupuk Tabing is the largest Kelurahan in Padang with a total area of 640 ha. Because of its dimension the survey could only cover parts of the Kelurahan. Thus, we carried out research in two different areas, RT 1 which is located at Jln Hamka, facing the airport of Tabing and RT 2 and 3 at the fringe of Padang on the road to Bukittingi. The latter is a recently established middle class housing estate populated mainly by Minangkabau civil servants. RT 1 consists of a small village like area of indigenous inhabitants which is faced by newly built houses of new settlers who recently moved into the area. Thus, like in the other Kelurahan included in our survey, we find sharp socio-economic differences between neighbourhoods living side by side.

3.964 families are living in Kelurahan Parupuk Tabing with a total population of 19.517 in 1993. The great majority of its population is Minangkabau with only an insignificant number of Chinese or Indonesians from different ethnic descent.

The rural survey location was in Kabupaten Agam, Kecamatan Sungai Puar. Two villages, Desa Tangah Kota and Desa Limo Suku, have been chosen which are found to be representative for the villages in the highlands. In the realm of the integration of villages into a broader market structure and the rise of education, most villages are no longer to be characterised as agricultural villages and subsistence production is no longer dominant. In contrary only 20 to 30 percent of the villagers are still working in the agricultural sector, whereas the majority of the population is working in the non-agricultural off-farm sector. In the selected villages many villagers are working as self-employed traders or are employed in different kinds of small industries and home industries.

In contrary to Padang, the survey villages are ethnically homogeneous with 99% of its population being Minangkabau. The level of income is much lower on average in the village and income distribution much more equal. Whereas in Padang the great majority of respondents are receiving a monthly salary (82.2%) 60 percent of

the villagers are working according to an outputting system (*borongan*) and only 20.7% are paid on a monthly basis.

The main source of income in kecamatan Sungai Puar is sewing in home industries. Every village in the kecamatan is specialised in a certain field. Tangah Koto is specialised in sewing sheets and cushions, the latter decorated with flower embroidery. Limo Suko is specialised in ready-made clothes for men and children.

## **2. Sampling Procedures**

The sampling has been conducted on an area and household base. Households in the sample area were listed and households were chosen by sample listing system. There was no sex-bias. 506 interviews have been carried out with 296 respondents in Padang and 210 in Kabupaten Agam. The unit of analysis was the individual employee. The questionnaire was focusing on three main fields:

A: basic personal data;

B: working situation, working place and recruitment;

C: segmentation

D: social mobility

Furthermore the respondents were asked to give detailed information about:

A: his/her personal background

B: job description and job entry

C: job mobility

D: the organisation of the work situation

Additionally, intensive interviews with 30 respondents have been carried out. These interviews provide detailed information on the relation between job entry and corruption/nepotism/social mobility.

## IV Employment Structure

### 1. Social Characteristics of Wage Labour

Work is organised in different forms. Most workers in West-Sumatra are self-employed or family household workers in the rural or urban informal sector. During 1980/1990, however, the number of wage labourers has increased to 27.2% of the labour force and it can be expected that the numbers will further increase through ongoing economic development.

Table 1  
Sample Population by Gender, Age, Ethnicity and Residence

		n	%
Gender			
	male	218	43.1
	female	288	56.9
Age			
	< 20	120	23.7
	21-30	175	34.6
	31-40	114	22.5
	41-50	64	12.6
	51-60	29	5.7
	61-70	2	0.4
Ethnicity			
	Minangkabau	427	84.4
	Javanese, Sundanese	31	6.1
	Chinese	20	4.0
	Batak	10	2.0
	Others	18	3.6
Residence			
	Urban	296	58.5
	Rural	210	41.5
Total sample		506	100.0

Our survey was therefore focused on waged labour, i.e. only employed persons were interviewed and self-employed persons were excluded. The following table describes basic social characteristics of our respondents:

## 2. Education and Human Resources

The quality of the labour force or the "human resources" are determined by education, training and skill levels. Data on West Sumatra in general and data from our survey in particular show relatively high levels of education. In line with expectations levels of educational attainment are reflected in levels of income, though variations are considerable.

Table 2  
Average Wages by Educational Attainment

Education	Average Wage, Rp.	Standard Deviation
No/not completed primary (SD)	2380	1885
Primary completed (SD)	3185	2168
Middle school (SMP)	3775	3053
Secondary school (SMA)	6651	4620
Tertiary (University, Academy)	9222	6468
Total	6086	5135

n=465, missing cases=41 (unpaid family workers)

## 3. Employment Status

The employment structure of our sample population will be shown by urban and rural residence. It should be kept in mind, that the urban sample represents the provincial capital Padang, whereas the rural sample was drawn from a sub-district in the highlands with a booming small industries sector.

Table 3  
Employment Status by Gender and Urban/Rural Residence

Employment Status	Urban		Rural		Total
	Male	Female	Male	Female	
Unpaid family work	3 (1.7)	6 (4.9)	12 (27.3)	20 (12.0)	41 (8.1)
Paid family work	7 (4.0)	5 (4.1)	8 (18.2)	10 (6.0)	30 (5.9)
Government employee	82 (47.1)	59 (48.4)	5 (11.4)	20 (12.0)	166 (32.2)
Private sector employee	82 (47.1)	52 (42.6)	19 (43.2)	116 (69.8)	269 (53.2)
Total	174 (58.8)	122 (41.2)	44 (21.0)	166 (79.0)	506 (100.0)

n=465, missing cases=41 (unpaid family labour)

The relative high proportion of paid and unpaid male family labour in rural areas can be explained through the history of the rural sample area. The area of Sungai Puar was formerly known for its blacksmith and metal working industry (Kahn 1969). This industry has meanwhile almost disappeared leaving the male workers unemployed. As work in agriculture is scarce, male workers tend to assist their wives or relatives in the new burgeoning garment industry.

#### 4. Wages

The average daily wage rate of our sample population is relatively high by current Indonesian standards with Rp. 6,086. There is a great difference between average rural (Rp. 3108) and urban (Rp.7,950) wages. The rural wages should, however, not be confused with wages in the agricultural sector, as rural off-farm employment in small scale industry and transport is widespread.

The average wage in the mostly small scale industry is Rp. 2,470, close to the government decreed minimum wage of Rp. 2,500. Wages by educational attainment have been discussed above. Differences of average wages by industry are shown in the table below.

Table 4  
Average Wages by Industry

Industry	Percent	Average Wage, Rp.
Agriculture	1.6	3214
Mining and quarrying	0.4	8850
Manufacturing industry	33.2	2478
Electricity, gas and water	1.0	9900
Construction	2.4	8775
Trade, restaurants and hotel	6.9	6175
Transportation, communication	4.3	7168
Finance, insurance	1.8	12344
Services	48.4	7709
Total	100.0	6086

n=506

## V. Labour Market Segmentation

In this section we will discuss labour market outcomes with special reference to segmentation. We are going to pose the question, whether or not labour markets are segmented on ethnic or gender lines.

### 1. Segmentation by Ethnicity

The literature on labour market segmentation in the US generally assumes that there are (or were) two different labour markets for blacks and for whites. By assuming that there were two distinct markets in which the logic of supply,

demand and market clearance still determined wage levels for various occupations, differences in unequal pay for the same type of work could still be explained. The same holds true for the two market segments of male and female labour.

In the following section we will explore how far the labour market in West Sumatra is segmented by ethnicity and how the segments are defined.

### (1) The Public Sector Labour Market

Indonesian society is differentiated into some 300 or more ethnic groups. The Indonesian state ideology recognises this difference, but give precedence to Indonesian national unity. The state motto therefore asserts "Unity in diversity" ("*bhineka tunggal ika*"). The civil service should therefore be a good testing ground whether or not segmentation by ethnicity occurs as an outcome of either discriminatory recruitment policies or ethnically determined preferences on the supply side. Ethnic stereotypes abound in this respect. Javanese are supposedly disposed towards public sector employment because of their *priyayi* (court official) culture; Batak tend towards technical occupations or the legal profession, Minangkabau are traders and Chinese are businessmen. This list could be extended to include all major ethnic groups in Indonesia.

Our survey data do not confirm this popular stereotype of an ethnically segmented public sector labour market - except for the Chinese "segment". In Padang major ethnic groups are represented in the civil service according to the same proportion as in the sample population in general.

Table 5  
Public Sector Employment by Ethnicity, Padang 1993

Ethnicity	Gvt. Officials	Total Population
Minangkabau	82.3	73.6
Javanese	9.2	10.5
Other Sumatra	7.8	9.1
Chinese	0.0	6.8

n=142

## (2) Private Sector Labour Market

In the private sector the situation looks quite similar. The ethnic distribution among workers and employees almost equals to ethnic distribution of urban workers in general - again with the exception of the Chinese and to a lesser degree other Sumatran ethnic groups (Batak, Malays, Nias etc), lumped together into one category.

Table 6  
Private Sector Employment by Ethnicity, Padang 1993

Ethnicity	Employees	Total Population
Minangkabau	64.8	73.6
Javanese	11.3	10.5
Other Sumatra	11.2	9.1
Chinese	12.7	6.8

n=142



### (3) Income Distribution

Though access to private and public sector employment is differentiated by ethnicity into only two sectors, namely a Chinese and a Bumiputra sector, income distribution strongly differs along ethnic lines.

Table 7

#### Wage Levels by Ethnicity, Padang 1993

Ethnicity	Wages, Rp.			
	0-2,000	2-5,000	5-10,000	10-50,000
Minang	5.7	30.6	44.5	19.1
Java/Sunda	23.3	16.7	36.7	23.3
Other Sumatra	11.1	22.2	40.7	25.9
Chinese	0.0	15.0	55.0	30.0
Total	7.7	27.3	44.1	21.0

n=286

If education and other factors are ignored, a clear-cut hierarchy of wage levels emerges, as shown in the table above. The average daily wages received by members of various ethnic groups differ considerably.

Table 8

#### Average Daily Wage by Ethnicity West Sumatra 1993

Ethnic Group	Average Daily Wage in Rp.
Minangkabau	5,617
Javanese	7,571
Other Sumatran	8,345
Chinese	9,771

n=465

The question then remains, whether ethnicity or education determines wage levels.

Table 9

**Average Daily Wages by Ethnicity and Educational Attainment**  
West Sumatra 1993

Ethnic Group	Average Daily Wage in Rp.	
	high	low
Minangkabau	6,264	2,733
Javanese	8,305	2,800
Other Sumatran	9,485	4,166
Chinese	9,933	6,700

n=465

Even if educational attainment is taken into consideration, wage levels are still determined by ethnicity. This is, of course, a strong indicator, that labour market segmentation by ethnicity exists after all.

## 2. Segmentation by Gender

The most severe form of segmentation is anchored in the difference between male and female employment. Surprisingly women and men are equally distributed among occupations, at least in urban areas.

Table 10

**Occupations by Gender, Padang 1993**

Occupation	Male	Female	Total
Family workers	4.6	4.1	4.4
Unskilled labour	29.9	29.5	29.7
Skilled labour	18.4	18.0	18.2
Government officials	47.1	48.4	47.6
Total	100.0	100.0	100.0

n=296

Nevertheless wage levels differ considerably. This holds true even if educational attainment is kept constant.

Table 11  
Wage Levels by Gender and Urban/Rural Residence

Wage levels (Rp.)	Urban		Rural	
	Male	Female	Male	Female
0-2,000	1.2	17.2	39.4	38.4
2-5,000	24.7	31.0	33.3	50.0
5-10,000	50.9	35.3	18.2	11.0
10-40,000	24.1	16.4	9.1	0.7

n=465, missing cases=41 (unpaid family labour)

The inequality of male and female workers in terms of wages received is maintained even if education is kept constant.

Table 12  
Average Wages (Rp.) by Gender and Education

Education	Urban		Rural	
	Male	Female	Male	Female
Primary	5570	1494	2790	2196
Secondary/Tertiary	9336	6940	4857	3157
Total	8960	6470	4169	2868

n=465, missing cases=41 (unpaid family labour)

This finding is a clear indication, that the labour market is segmented on gender lines. Our findings reveal that the generally assumed strong position of women in matrilineal Minangkabau society is not visible in the formal sector labour market. Women are paid less irrespective of educational attainment, particularly in urban areas.

### 3. Rural/Urban Segmentation

Equally pronounced difference are found between the rural and the urban labour markets.

Table 13

#### Employment by Location of Workplace

Employment	Urban	Rural	Total
Unskilled labour	29.7	63.8	43.9
Skilled labour	18.2	2.9	11.9
Government employee	47.6	12.4	33.0
Family labour	4.4	21.0	11.3
Total	58.5	41.5	100.0

n=506

Wage levels are also quite different, if educational attainment is kept constant.

Table 14

#### Average Wages by Education and Residence

Education	Urban	Rural
No/not completed primary (SD)	3340	1824
Primary completed (SD)	4556	2575
Middle school (SMP)	5993	2394
Secondary school (SMA)	7906	4202
Tertiary (University, Academy)	9616	4617
Total	7950	3108

n=465, missing cases=41 (unpaid family workers)

## VI Summary

Our survey on labour market segmentation in the Indonesian province of West Sumatra has shown that

- (1) Segmentation exists in terms of gender and locality, and to a lesser extent by ethnicity between local ethnic groups on one hand and Chinese on the other
- (2) Segmentation strongly influences labour market outcomes in terms of wage levels
- (3) Education as part of human resources development also predicts wage levels, though variations are considerable indicating the impact of labour market segmentation.

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