

WHAT IS THE RELATIONSHIP BETWEEN MINIMUM WAGES IN CITIES/REGENCIES AND THE QUANTITY OF LABOR, WELL-BEING, AND ECONOMIC GROWTH?

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ABSTRACT

The issue of wages remains a significant concern, particularly in developing nations such as Indonesia. Given that wages constitute the primary portion of an individual's income, it serves as a crucial indicator reflecting a country's level of well-being. This study examines the correlation between the Minimum Wage and the Quantity of Labor, Prosperity, and Economic Growth in East Java. This research falls under the category of experimental research, employing a quantitative approach to provide a numerical explanation. The data analysis method involves the use of the canonical correlation statistical technique. The study reveals that the number of workers, well-being, and economic growth can be forecasted based on city/regency minimum wages. Among these factors, the city/regency minimum wage demonstrates the closest association with the quantity of workers. This is attributed to wages serving as the primary motivator for the workforce. Additionally, city/regency minimum wages correlate with the welfare of workers in East Java while also being linked to the region's economic growth.

Keywords: City/Regency Minimum Wages, Number of Labor, Welfare, Economic Growth

INTRODUCTION

The minimum wage functions as a policy tool or intervention within the market economy structure by establishing a foundational value above the equilibrium level. Aligned with the efficiency wage theory, the primary objective of the minimum wage is to enhance workforce productivity, thereby leading to a subsequent rise in a company's production output. This increase in output, in turn, generates higher demand for labor and contributes to overall economic growth (Dewi & Bendesa, 2020). These findings are corroborated by research outcomes from the OECD (2022), indicating that minimum wages have the potential to boost employment opportunities and foster economic growth.

Maintaining an appropriately set minimum wage is crucial to prevent wages for entry-level workers from falling to excessively low levels, as an excessively low minimum wage poses a threat to the well-being of labor (Campos Vázquez et al., 2018). Furthermore, the minimum wage can play a role in coordinating development towards a

higher wage equilibrium (Georgios & Mylonas, 2018). The widely adopted wage system in several countries is the minimum wage policy, which manifests in two distinct aspects. Firstly, the minimum wage policy acts as a safeguard for workers, preserving the value of their wages to meet their daily necessities without a decrease. Secondly, the minimum wage policy serves as a protective mechanism for companies, ensuring the maintenance of labor productivity (Dube, 2019). Research conducted by Putra and Yasa (2019) asserts that city/regency minimum wages positively and significantly impact economic growth. This finding contrasts with the perspective of Windayana and Darsana (2020), who argue that an increase in the minimum wage may escalate production costs for companies, prompting them to reduce their workforce, subsequently diminishing the quality and quantity of products, and potentially hindering economic growth.

The minimum wage can have adverse effects on high-growth industries and pose challenges for local small businesses with a substantial customer base (Pratama et al., 2020). It may also impede the establishment of new enterprises in the region, particularly in industries heavily reliant on low-skilled labor (Gregory & Zierahn, 2022). The annual adjustment of the minimum wage policy has the potential to trigger disputes, leading to significant financial and time expenditures. There is an indication that the minimum wage may not be as effective for ensuring business continuity (Dube, 2019). The minimum wage policy, widely implemented in various countries, essentially serves two purposes. Firstly, it acts as a protective measure for workers, ensuring that the value of their wages remains sufficient to meet daily needs without diminishing. Secondly, it functions as a safeguard for companies, ensuring the preservation of labor productivity (Putri, 2022).

Table 1. East Java Regional Minimum Wage for 2021-2023

Regency/ Municipality	Regency/City Minimum Wage in East Java (Rupiah)		
	2021	2022	2023
East Java	1868777.0 8	1891567.1 2	2040244.3 0
Regency			
Pacitan	1961154.7 7	1961154.7 7	2157270.2 5
Ponorogo	1938321.7 3	1954281.3 2	2149709.4 5
Trenggalek	1938321.7 3	1944932.7 4	2139426.0 1
Tulungagung	2010000.0 0	2029358.6 7	2229358.6 7
Blitar	2004705.7 5	2015071.1 8	2215071.1 8
Kediri	2033504.9 9	2043422.9 3	2243422.9 3
Malang	3068275.3	3068275.3	3268275.3

	6	6	6
Lumajang	1982295.1	2000607.2	2200607.2
	0	0	0
Jember	2355662.9	2355662.9	2555662.9
	1	1	1
Banyuwangi	2314278.8	2328899.1	2528899.1
	7	2	2
Bondowoso	1954705.7	1958640.1	2154504.1
	5	2	3
Situbondo	1938321.7	1942750.7	2137025.8
	3	7	5
Probolinggo	2553265.9	2553265.9	2753265.9
	5	5	5
Pasuruan	4290133.1	4365133.1	4515133.1
	9	9	9
Sidoarjo	4293581.8	4368581.8	4518581.8
	5	5	5
Mojokerto	4279787.1	4354787.1	4504787.1
	7	7	7
Jombang	2654095.8	2654095.8	2854095.8
	8	8	8
Nganjuk	1954705.7	1970006.4	2167007.0
	5	1	5
Madiun	1951588.1	1958410.3	2154251.3
	6	1	4
Magetan	1938321.7	1957329.4	2153062.3
	3	3	7
Ngawi	1960510.0	1962585.9	2158844.5
	0	9	9
Bojonegoro	2066781.8	2079568.0	2279568.0
	0	7	7
Tuban	2532234.7	2539224.8	2739224.8
	7	8	8
Lamongan	2488724.7	2501977.2	2701977.2
	7	7	7
Gresik	4297030.5	4372030.5	4522030.5
	1	1	1
Bangkalan	1954705.7	1956773.4	2152450.8
	5	8	3
Sampang	1938321.7	1922122.9	2114335.2
	3	7	7
Pamekasan	1938321.7	1939686.3	2133655.0
	3	9	3
Sumenep	1954705.7	1978927.2	2176819.9
	5	2	4
Municipality			
Kediri	2085924.7	2118116.6	2318116.6
	6	3	3
Blitar	2004705.7	2039024.4	2239024.4
	5	4	4
Malang	2970502.7	2994143.9	3194143.9
	3	8	8
Probolinggo	2350000.0	2376240.6	2576240.6
	0	3	3
Pasuruan	2819801.5	2838837.6	3038837.6
	9	4	4
Mojokerto	2481302.9	2510452.3	-
	7	6	-
Madiun	1954705.7	1991105.7	2190216.3
	5	9	7

Surabaya	4300479.1 9	4375479.1 9	4525479.1 9
Batu	2819801.5 9	2830367.0 9	3030367.0 9

Source: Central Bureau of Statistics, 2023

Table 1 illustrates the variations in minimum wages across different cities/regencies in East Java. The rationale behind establishing the 2022 Minimum Wage is outlined in Government Regulation Number 36 of 2021 regarding Wages. Notably, there was no provision for the Minimum Wage for the Province of East Java in 2015 and 2016. The Minimum Wage for East Java in 2022 is determined by the Decree of the Governor of East Java, specifically through Number 188/803/Kpts/013/2021, addressing the Regency/city Minimum Wage in East Java for the year 2022 (Keputusan Gubernur Jawa Timur, 2022).

The demographic group comprising individuals aged 15 years and above plays a crucial role in determining the labor force participation rate within a region. In the year 2022, the Central Bureau of Statistics has published data on the population aged 15 years and over, categorized by city/regency and type of labor force activity in East Java Province. This dataset holds significant value as it offers insights into the workforce distribution throughout the East Java region, shedding light on the patterns and characteristics of activities undertaken by the community in each city/regency. Table 2 will provide an in-depth analysis of this data, exploring its implications for the economy and influencing development policies in East Java.

Table 2. Population Aged 15 Years and Over by Regency/City and Type of Workforce Activities During the Past Week in East Java Province 2022

Regency/ Municipality	Economically Active				Total of Economically Active
	Working	Unemployment		Total	
		Ever Worked	Never Worked		
Regency					
Pacitan	367,353	NA	2,951	NA	381,276
Ponorogo	498,849	19,184	9,881	29,065	527,914
Trenggalek	389,711	16,109	6,000	22,109	411,820
Tulungagung	563,849	23,592	16,556	40,148	603,997
Blitar	645,739	25,701	11,518	37,219	682,958
Kediri	806,121	47,440	11,645	59,085	865,206
Malang	1,384,005	58,940	38,379	97,319	1,481,324
Lumajang	557,378	3,862	25,296	29,158	586,536

Jember	1,305,10 ₁	34,14 ₅	21,115	55,26 ₀	1,360,36 ₁
Banyuwangi	885,113	27,58 ₃	21,546	49,12 ₉	934,242
Bondowoso	454,395	8,216	12,317	20,53 ₃	474,928
Situbondo	393,804	10,97 ₄	2,810	13,78 ₄	407,588
Probolinggo	649,736	4,669	17,159	21,828	671,564
Pasuruan	862,062	10,643	43,470	54,113	916,175
Sidoarjo	1,224,015	35,037	83,022	118,059	1,342,074
Mojokerto	615,557	14,160	17,061	31,221	646,778
Jombang	633,153	24,194	12,451	36,645	669,798
Nganjuk	539,243	16,875	9,977	26,852	566,095
Madiun	383,280	15,419	8,338	23,757	407,037
Magetan	372,496	9,848	7,004	16,852	389,348
Ngawi	526,988	7,944	5,475	13,419	540,407
Bojonegoro	699,239	23,220	11,194	34,414	733,653
Tuban	670,721	20,074	11,805	31,879	702,600
Lamongan	631,611	18,226	22,452	40,678	672,289
Gresik	664,371	22,108	34,393	56,501	720,872
Bangkalan	517,564	15,323	29,982	45,305	562,869
Sampang	535,636	5,854	11,327	17,181	552,817
Pamekasan	510,717	NA	NA	7,253	517,970
Sumenep	665,221	2,480	6,673	9,153	674,374
Municipality					
Kediri	156,641	3,514	3,666	7,180	163,821
Blitar	73,616	3,054	1,138	4,192	77,808
Malang	418,158	17,769	16,909	34,678	452,836
Probolinggo	123,364	2,194	3,714	5,908	129,272
Pasuruan	100,520	3,682	2,941	6,623	107,143
Mojokerto	68,705	1,914	1,743	3,657	72,362
Madiun	90,627	1,997	4,191	6,188	96,815
Surabaya	1,518,038	44,558	80,718	125,276	1,643,314
Batu	110,596	7,449	2,726	10,175	120,771
East Java	21,613,293	622,543	633,17₆	1,255,71₉	22,869,012

Source: Central Bureau of Statistics, 2023

Table 2 reveals significant variations in the working population across different cities in

East Java. Surabaya boasts the highest total working population, reaching 1,518,038 individuals, whereas Mojokerto has the lowest, with 68,705 people. When it comes to unemployment figures in East Java for the year 2022, Surabaya reports the highest number at 125,276 individuals, while Mojokerto has the least with 3,657 people. Surabaya also leads in the total number of the workforce, with 1,643,314 people, while Mojokerto holds the lowest position with a total of 72,362 individuals.

The concept of welfare is multifaceted and encompasses diverse perspectives and metrics (Joshnanloo et al., 2019). The term "welfare" has a broad significance and encompasses various viewpoints or measurements. The term itself is derived from the word "prosperous," which implies safety, prosperity, and well-being. While a measure of welfare is abstract and relative, it does not imply that it cannot be quantified (Moore & Woodcraft, 2019). The computation of the Human Development Index (HDI) as a gauge of human development serves several crucial purposes, including: firstly, the development of indicators that assess fundamental dimensions of human development and the broadening of freedom of choice; secondly, the utilization of a set of indicators to maintain simplicity in measurement; thirdly, the formation of a composite index rather than relying on multiple basic indices; and fourthly, the creation of a measure that encompasses both social and economic aspects (Dasic et al., 2020).

Economic growth stands as a pivotal indicator for evaluating the performance of an economy, particularly for analyzing the outcomes of economic development endeavors undertaken by a country or a region (Simionescu et al., 2017). Economic growth is characterized by an increase in the production of goods and services compared to the preceding year (Erdkhadifa, 2022). This research underscores that economic growth signifies the extent to which economic activities can generate additional income or enhance social welfare within a specific timeframe. Sustained improvement in the economic growth of a country or region indicates successful economic development (Wilmoth et al., 2022).

The economic growth of a region serves as a crucial indicator for gauging the vitality and dynamics of the regional economy (Rochmatullah et al., 2020). Economic growth, a concept denoting favorable changes in the economic worth of a region over a specific timeframe, is attainable through increased production of goods and services, augmented investment, heightened consumption, and other economic activities (Ishak, 2019). Therefore, scrutinizing economic growth data for a region, exemplified by the East Java Economic Growth histogram spanning from 2018 to 2022, can furnish a comprehensive overview of the economic development within that region during the

specified period.

The concept of human capital was initially introduced by Becker (1994), who conducted an in-depth examination of the role of formal education in supporting economic growth. Becker asserted that higher levels of formal education lead to increased labor productivity. This aligns with the Human Capital theory, which posits that education influences economic growth by enhancing labor productivity. In accordance with Law No. 13 of 2003, wages represent the rights of laborers and are received as monetary compensation from employers, determined and paid based on work agreements, negotiations, or legal provisions. This includes allowances for laborers and their families for services rendered (UU RI No. 13 Tahun 2003 Tentang Ketenagakerjaan pasal 1 ayat 30, 2003). An increase in the wage rate is associated with a decrease in the demand for labor, resulting in a reduction in the quantity of labor demanded while increasing the supply of labor. Conversely, a decrease in the wage rate leads to an increase in the demand for labor (Hamermesh, 2021).

Labor holds a pivotal role as a significant factor of production, exerting a substantial influence on the management and control of economic systems encompassing production, distribution, consumption, and investment (Hwang et al., 2022). The aggregate demand for labor is explicable in terms of the relationship between various wage rates and the required workforce. However, the quantity of labor demanded specifically pertains to the amount of labor sought at a given wage level (Pramusinto & Daerobi, 2019). The well-being of laborers is intricately linked to their income levels and the burdens they face in daily life, including familial responsibilities, children's education, healthcare expenses, work-related accidents, and more. However, this contradicts research findings suggesting that income does not significantly impact welfare (Utaminingsih & Suwendra, 2022).

The research on the analysis of the influence of city/regency Minimum Wage on the number of laborers, welfare, and economic growth aims to assess the extent of the impact of city/regency Minimum Wage on these dimensions. City/regency Minimum Wage is a critical consideration as the government's stipulated wage rate can have repercussions on the employment sector, labor well-being, and overall economic growth. Therefore, this research endeavors to furnish insights into the repercussions of city/regency Minimum Wage on economic growth and labor welfare, offering recommendations for relevant stakeholders in formulating pertinent policies. Consequently, the study's outcomes will prove valuable for decision-making in the realms of employment and the economy, benefiting the government, business community, and the general populace.

METHOD

This research falls under the category of experimental research. Experimental

research is designed to ascertain the presence or absence of the impact of a particular variable on the subjects under investigation. In essence, experimental research aims to investigate causal relationships (Arikunto, 2011). The research adopts a quantitative approach, relying on numerical explanations. Quantitative research is characterized by its emphasis on numerical data, encompassing data categorization, prediction, and the presentation of output results (Arikunto, 2011). The population and research samples consist of data retrieved from the annual reports of each city/regency for the years 2018-2022 from the Central Bureau of Statistics of East Java, comprising a total of 38 regions.

The data analysis technique employed in this study is canonical correlation analysis, a statistical model utilized to assess the correlation between one or more sets of dependent variables and one or more sets of independent variables (Ghozali, 2011). The outcomes of the canonical analysis yield two dependent canonical variables and two independent canonical variables. Canonical correlation serves as a measure of the strength of the correlation between two sets of multiple variables, referred to as canonical variation. The canonical variables elucidate the optimal linear combination between the dependent and independent variables, while the canonical correlation gauges the strength of the correlation between these two sets of variables (Ghozali, 2011). For this study, the data analysis technique involves canonical correlation statistical techniques, facilitated by IBM SPSS Statistics v25 software.

RESULT AND DISCUSSION

The output provided below presents the findings of the canonical correlation analysis conducted using IBM SPSS Statistics v25 software. The analysis process adhered to the specified steps, which involve identifying one or more canonical functions based on the significance level (Multivariate Test of Significance) being below 0.05 and ensuring that the canonical correlation values exceed 0.5. The outcomes of the calculations to ascertain the canonical function are detailed in Table 3

Table 3. Calculations for Determining the Canonical Function (Individual Testing)

Root No.	Eigenvalue	Eigenvalues and Canonical Correlations			
		Pct.	Cum. Pct.	Canon Cor.	Sq. Cor
1	2.642	93.078	93.078	.843	.725
2	.195	6.868	99.946	.411	.163
3	.002	.054	100.000	.036	.002

Dimension Reduction Analysis					
Roots	Wilks L.	F Hypoth.	DF	Error DF	Sig. of F
1 TO 3	.22945	18.56323	12.00	299.26	.000
2 TO 3	.83559	3.57062	6.00	228.00	.002
3 TO 3	.99847	.08823	2.00	115.00	.916

Source: Spss25 data processing results

Examining the roots, three canonical functions are identified: Function 1 with a canonical correlation of 0.843 and a significance of 0.000, Function 2 with a canonical correlation of 0.404 and a significance of 0.000, and Function 3 with a canonical correlation of 0.039 and a significance of 0.916. These results indicate that Functions 1 and 2 are individually significant with a significance level <0.05 . However, Function 3, with a significance level >0.05 , is not considered individually significant. Consequently, Functions 1 and 2 can be further analyzed, while Function 3, individually, does not warrant further processing.

Table 4. The Calculation Results Together with the Four Procedures (Group Testing)

Multivariate	Tests of	Significance (S = 3,	M	= 0, N	= 38 1/2)
Test Name	Value	Approx. F	Hypoth.DF	Error DF	Sig. of F
Pillais	.87027	11.92399	12.00	255.00	.000
Hotellings	3.13844	25.81795	12.00	318.00	.000
Wilks	.23117	17.97359	12.00	302.24	.000
Roys	.71943				

Source: Spss25 data processing results

All four procedures—Pillais, Hotelling's, Wilks, and Roys—yielded significant results, each with a significance level <0.05 . Consequently, when considered collectively, Canonical Function 1, Canonical Function 2, and Canonical Function 3 can be further analyzed. Table 3 displays the differences in canonical correlation, with the number of canonical correlation for Function 1 = 0.852, Function 2 = 0.404, and Function 3 = 0.039. Given that Function 1 exhibits a high and significant canonical correlation both individually and collectively, the subsequent analysis will focus solely on Function 1.

The Canonical Interpretation Varies

This analysis builds upon the previous test that determined Canonical Function 1. Consequently, in this analysis, the focus is solely on Canonical Function 1, disregarding Function 2 and Function 3. Canonical Function 1 involves the dependent canonical

variable, which includes the number of workers and welfare, while the independent canonical variable encompasses the city/regency minimum wage.

Table 5. The Results of the Canonical Weights Calculation for the Dependent Variate(Canonikal Weights)

Standardized canonical	coefficients			Dependent variabls
	for			
	Function No.			
Variable	1	2	3	
Number of Labor	-.746	.460	.262	
Welfare	.260	-.472	-.846	
Economic Growth	.225	-.374	.963	

Source: Spss25 data processing results

Table 6. The Results of the Canonical Weights Calculation for the Independent Variates

Raw canonical coefficients for COVARIATES			
	Function No.		
COVARIATE	1	2	3
City/regency Minimum Wages	.076	.064	-.008
Standardized canonical coefficients for COVARIATES			
	CAN. VAR.		
COVARIATE	1	2	3
City/regency Minimum Wages	.963	.841	-.053

Source: Spss25 data processing results

Without considering Function 2 and Function 3, a set of correlation numbers between each variable and its respective variables can be observed. Regarding the dependent variable, there is a notable correlation number of 0.746 (number of labor). As for the independent variable, there is a particularly high correlation number of 0.963 (city/regency minimum wage).

Table 7. The Results of the Canonical Loading Calculation for the DependentVariate (Canonical Loading)

Correlations between DEPENDENT and canonical variabls			
	Function		
Variable	1	2	3
Number of Labor	.882	.498	.264
Welfare	.341	.571	-.710
Economic Growth	.375	-.124	.513

Source: Spss25 data processing results

Table 8. The Results of the Canonical Loading Calculations for the Independent Variates

Correlations between COVARIATES and canonical variabls	
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COVARIATE	CAN. VAR.
City/regency Minimum Wages	1 .871

Source: Spss25 data processing results

Tables 7 and 8 display the results of the canonical loading calculation, focusing solely on Function 1. It illustrates a series of correlation loading numbers for each variable and its respective variate variables. Concerning the dependent variable, there is a single high loading canonical number, specifically 0.882 (number of labor). In contrast, the canonical loading for the independent variable is 0.871 (city/regency minimum wages). Based on the above calculation results involving three dependent variables and one independent variable, it was observed that the individual independent variables exhibit varying degrees of correlation, with the city/regency minimum wage displaying the highest correlation. When tested collectively, the three dependent variables demonstrate a significant correlation, indicating a connection between the number of labor, welfare, and economic growth with the city/regency minimum wage. Notably, the strongest correlation is identified with the number of labor, suggesting that cities/regencies in East Java with a high labor force have a lower city/regency minimum wage. This finding aligns with the understanding that wages serve as a primary motivator for laborers. The study's outcomes are consistent with prior research, such as Nafiah (2020), which also identified a correlation between a high number of laborers and the city/regency minimum wage. Furthermore, the city/regency minimum wage is linked to labor welfare in East Java, signifying that changes in the city/regency minimum wage result in corresponding shifts in laborers' welfare. This is in line with existing research, including Berger et al. (2021), which established a correlation between the minimum wage and labor welfare. Additionally, the city/regency minimum wage is associated with economic growth, implying that alterations in the city/regency minimum wage lead to changes in economic growth in East Java. This corroborates with research findings, such as Ansari et al. (2023), which highlighted the correlation between the minimum wage and economic growth.

The correlation observed between the group of independent variables and the group of dependent variables underscores a meaningful connection. Notably, the variable representing the number of laborers exhibits an intriguing correlation. This aligns with several theories, including the Wages Fund theory proposed by David Ricardo, which posits that wages are contingent on the demand and supply of labor. Essentially, the role of the minimum wage is perceived as a mechanism to attract labor (Cremaschi, 2021).

The minimum wage policy, widely implemented across various countries (Tung, 2021), serves as a protective measure for laborers, and the extent of this protection is influenced by the scope of collective bargaining. In many countries, stability is achieved through the extension of collective agreements (Susanti et al., 2019). On the other hand, employers generally seek stability in labor wages to prevent increases in production costs, enabling them to maintain competitive product prices.

CONCLUSION

Based on the data processing results presented in the previous section, it can be concluded that the variables of the number of laborers, welfare, and economic growth can be predicted through the city/regency minimum wage. Specifically, when considered individually, the city/regency minimum wage exhibits the strongest correlation with the number of laborers. This is primarily because wages serve as a fundamental motivation for laborers. Additionally, the city/regency minimum wage is linked to the welfare of laborers in East Java and is associated with economic growth. Moving forward, it is imperative for the government to gain a comprehensive understanding of the minimum wage policies in place across every city/regency in East Java. This is crucial to ensure that the set minimum wage aligns with the living needs and welfare of laborers. The government should actively involve stakeholders, including labor representatives, employers, trade unions, and civil society organizations, in the process of formulating minimum wage policies. Moreover, the government should prioritize efforts to enhance the quality and skills of the workforce. Lastly, regular monitoring and evaluation of the implemented minimum wage policy are essential. This ongoing assessment will aid in determining the policy's effectiveness in achieving objectives related to poverty reduction, worker welfare, and sustainable economic growth.

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