

## THE IMPACT OF PROVINCIAL MINIMUM WAGE INCREASES AND ECONOMIC GROWTH RATES ON POVERTY LEVELS IN DKI JAKARTA

Sutrisno

Faculty of Economics and Business, Mochammad Husni Thamrin University, Jakarta

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#### E-mail:

[Sutrisno.73.se.mm@gmail.com](mailto:Sutrisno.73.se.mm@gmail.com)

### ABSTRACT

This study aims to determine the effect of the provincial minimum wage variables and the rate of economic growth on the poverty level. This study uses quantitative time series data (years 2010-2021) in DKI Jakarta Province. Based on multiple linear regression analysis, the partial test showed that the increase in the UMP had no significant effect on the poverty level in DKI Jakarta. In contrast, the economic growth rate significantly affected the poverty level in DKI Jakarta. Simultaneous testing shows that the increase in the UMP and the rate of economic growth have a simultaneous and significant effect on the poverty level in DKI Jakarta. The results of the Coefficient of Determination test, the increase in the UMP, and the economic growth rate contributed 75.9% to the poverty rate, and other variables outside this study influenced the remaining 24.1%.

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### 1. INTRODUCTION

Jakarta's poverty rate was 4.69% in March 2022. This figure slightly increased by 0.02 percentage points compared to the September 2021 period but decreased by 0.03 percentage points compared to the March 2021 period [1]. The increase in the poverty rate was partly due to the declining purchasing power of people affected by the COVID-19 pandemic and the rising prices of goods and services [2][3]. The increase in new cases of Covid-19 due to the Omicron variant during the March 2022 period impacted the imposition of restrictions on several economic activities, which had previously begun to recover gradually. The economy is starting to improve, but people's purchasing power has yet to recover fully. From September 2021 - March 2022, Jakarta's economy grew by 4.42%, but inflation was also relatively high at 1.78%. At the same time, the disbursement of various types of social donations from the Central and Provincial governments, which can help maintain purchasing power, has yet to be optimally distributed. This has an impact on the level of consumption of the poor.

Poverty in Indonesia, especially in DKI Jakarta, is still a serious problem that needs to be addressed [4]. Therefore, the government always reviews poverty data in Indonesia every year. The data collection continues to be carried out to determine how many Indonesian people are on the verge of poverty [5][6].

The minimum wage also has an impact on the poverty rate through an increase in the average wage, where the poverty rate decreases as the average wage for workers increases, but on the other hand, the increase in the minimum wage does not affect increasing the poverty rate because many poor people do not work in the formal sector. [7][8]. Determination of the 2022 Minimum Wage, based on Law Number 11 of 2020 concerning Job Creation and its derivative regulations PP No. 36 of 2021 concerning Wages, aims to protect workers/labourers so that their wages are not paid too low due to their weak bargaining position in the labour market [9].

Economic growth is one indicator of successful development [10]. In contrast, the most important development goal is poverty reduction which can be achieved through economic growth or income redistribution [11]. The effect of economic growth on poverty reduction is an indirect effect due to the vertical flow from the rich to the poor [12][11]. This also means that poverty will be reduced on a very small scale if the poor only receive a little benefit from the total benefits arising from economic growth [13]. This condition can open opportunities for increased poverty due to increased income inequality caused by economic growth favouring the rich over the poor [12]. Therefore, economic growth can positively impact reducing poverty if the economic growth occurs is pro-poor [11], [14].

Economic growth is necessary for reducing poverty, while a sufficient condition is that economic growth must effectively reduce poverty [15][16]. Growth should spread across each income group,

including among the poor (growth with equity)[15]. Directly, this means that it is necessary to ensure that growth occurs in the sectors where the poor work (agriculture or labour-intensive sectors). As for indirectly, this means that a government is needed that is quite effective in redistributing the benefits of growth [17][18].

Poverty In general, poverty can be understood as a problem associated with the economic sector of society. Besides being associated with the economic sector of society, poverty can also be seen broadly from both the social and cultural perspectives of the community itself[19][20]. The community often faces poverty when there is a condition of inability to meet daily needs such as fulfilling boards, clothing, and food [21]. The phenomenon of poverty like this is common in developing countries, especially in Indonesia, due to the low income of the people and also the low quality of human resources (HR) itself[22].

According to Mudrajat Kuncoro, poverty is the inability to meet a minimum standard of living, where poverty is measured based on consumption [23]. Based on this consumption, the poverty line consists of two elements, namely (1) expenses needed to buy minimum nutritional standards and other basic needs and (2) the number of other needs that varies widely, which reflects the cost of participation in people's daily lives [24].

Meanwhile, the Central Bureau of Statistics defines poverty as the inability from an economic standpoint to meet basic food and non-food needs as measured from the expenditure side[25]. The term poverty appears when a person or group of people is unable to meet the level of economic prosperity, which is considered the minimum requirement of a certain standard of living. In a narrow sense, poverty is understood as a lack of money and goods to ensure survival [26].

Meriam Webster's International Encyclopedia defines "poverty as scarcity, dearth, or the state of one who lacks a certain amount of material possessions or money." while Word Bank states, "Poverty is pronounced deprivation in wellbeing" [27]

Poverty is multidimensional because human needs vary, so that they can be seen from various aspects [28]. From the general policy, poverty is divided into two primary and secondary aspects. Primary aspects include poor assets, social organization, knowledge, and skills. At the same time, the secondary aspects include poor social networks, financial resources, and information. The poverty construct is manifested in the form of malnutrition, clean water, healthy housing, poor health care, and low levels of education [29][30].

Lincoln Arsyad added another indicator to measure a region's poverty level using the Human Poverty Index. According to the UNDP (United Nations Development Program), three main values determine the level of poverty: the level of life, basic education, and economic stability [31].

The minimum wage is the lowest monthly wage set annually as a safety net in an area. The minimum wage is the lower wage limit because the rules prohibit employers from paying workers wages lower than the minimum wage. The minimum wage can be set in the Province, or what we often hear as the Provincial Minimum Wage, or set in the District/City called the District/City Minimum Wage. According to Article 23 paragraph (1) and (2) of Government Regulation Number 36 of 2021 concerning Wages (PP 36/2021), the minimum wage referred to is the lowest monthly wage, consisting of:

- a. Wages without benefits; or
- b. Basic wages and fixed allowances; or
- c. If the Wage component in the company consists of basic wages and non-fixed allowances, the basic wage is at least equal to the minimum wage.

Wages are a person's main source of income. Therefore, wages must be sufficient to meet the reasonable needs of workers and their families. In return for the energy and thought that workers give to employers, employers will give them to workers in the form of wages. Wages are an acceptance as a reward from an employer to an employee for a job or service that has been or is performed and is stated or valued in the form of money, which is determined based on an agreement or statutory regulations and is paid based on a work agreement between the employer and the employee including allowances, both for the employee himself and his family. So wages reward a person's work effort to the entrepreneur. Employers pay wages according to or equal to the work effort (productivity) given to employers.

An important difference with economic development, in economic development, the level of per capita income continues to increase. In contrast, an increase does not necessarily follow economic growth in per capita income [32]. Economic growth is defined as an increase in Gross Domestic Product/Gross National Income regardless of whether the increase is greater or less than the rate of population growth or whether changes in the economic structure occur [32]. Economic growth is an effort to increase production capacity to achieve additional output, which is measured using the Gross Domestic Product (GDP) and the

Gross Regional Domestic Product (GDP) in a region[33]. Economic growth shows the growth in the production of goods and services in an economic area within a certain time interval. In contrast, the economic growth rate is from year t-1 to year t. Shows the level of success of the development of a region in a certain period. Positive growth indicates an increase in the production of goods and services [34].

## 2. METHOD

This research is included in quantitative research because this research is presented with various forms of numbers. This follows the opinion [35] that quantitative research is a research approach that requires many numbers, starting from data collection and interpretation of the data. This research was conducted in DKI Jakarta Province. The type of data used in this study is secondary data, consisting of provincial minimum wage increases, economic growth rates, and poverty rates. The dependent variable in this study is the poverty rate. In contrast, the independent variables in this study are the increase in the provincial minimum wage and the rate of economic growth.

The type of data used in this study is in the form of qualitative and quantitative data [36], with the following explanation:

- a. Qualitative data is data that is not in the form of numbers, such as an overview of the progress of the increase in the provincial minimum wage, the rate of economic growth and the poverty rate in DKI Jakarta.
- b. Quantitative data is data in the form of the percentage increase in the provincial minimum wage, the rate of economic growth, and the percentage of poverty in DKI Jakarta for the last 12 years (2010-2021). The data source in this study uses secondary data, namely data collected by data collectors and published in the data user community. The data in this study were obtained from BPS publications for the last 12 years (2010-2021).

The analytical method used in this research is panel data regression analysis. In addition to carrying out multiple linear regression analysis, significance tests were also used, which consisted of the t-test and F test and carried out the classic assumption test, which consisted of the normal test, multicollinearity test, autocorrelation test, and heteroscedasticity test using the SPSS 25.0 program. So the function model used is as follows:

$$Y = \alpha + b_1X_1 + b_2X_2 + e$$

Where:

Y = Poverty

$\alpha$  = Constant

$b_1$  = Regression coefficient

$X_1$  = Increase in Provincial Minimum Wage (UMP)

$X_2$  = Economic Growth Rate

e = Error terms

## 3. RESULT AND DISCUSSION

### a. Normality Test

The normality test aims to test whether, in the regression model, the dependent variable and the independent variable have a normal distribution or not. To find a good regression model, that is, if the variables studied have a normal or close to normal distribution. To see whether the research data is normal or not. We can look at the histogram graph, normal probability plot graph and the non-parametric Kolmogorov-Smirnov (K-S) Kolmogorov test below.

The P-P Plot Regression graph shows that the points or data are close to/following the diagonal line, so it can be said that the residual values are normally distributed as shown in the graph below;

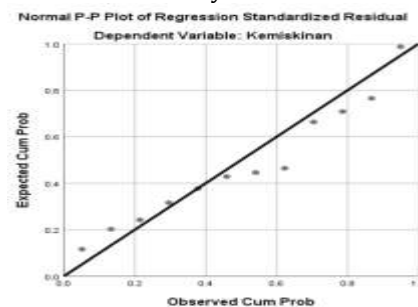


Figure 1. P-P Plot Regression

Kolmogorov-Smirnov Test results with Asymp.Sig values. (2-tailed) of 0.20 is greater than 0.05, so it is concluded that the data is normally distributed as shown in the table below;

Table 1. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		12
Normal Parameters <sup>a,b</sup>	Mean	.000000
	Std. Deviation	.16902457
Most Extreme Differences	Absolute	.152
	Positive	.152
	Negative	-.102
Test Statistic		.152
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: Data processed by SPSS 25, 2022

### b. Heteroscedasticity test

To test whether in the regression model there is an inequality of variance from the residual one observation to another observation, if  $\text{sig} > 0.05$ , then there is no heteroscedasticity. If  $\text{sig} < 0.05$ , then there is heteroscedasticity. UMP increase =  $0.237 > 0.05$  and economic growth rate  $0.208 > 0.05$ , both heteroscedasticities does not occur as shown in table 2;

Table 2. Heteroscedasticity Test  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.330	.111		2.961	.016
	Increase in Provincial Minimum Wage	-.003	.002	-.356	-1.268	.237
	Economic Growth Rate	-.028	.020	-.381	-1.357	.208

a. Dependent Variable: RES2

### c. Autocorrelation Test

Autocorrelation arises because successive observations over time are related to one another. The autocorrelation test aims to test whether, in a linear regression model, there is a correlation between the confounding errors in period  $t$  and the errors in period  $t-1$  (previously). The following are the results of testing Autocorrelation data.

Table 3. Autocorrelation Test  
Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.896 <sup>a</sup>	.802	.759	.18686	1.704

a. Predictors: (Constant), Economic Growth Rate, Increase in Provincial Minimum Wage

b. Dependent Variable: Poverty

Based on the results shown in the table above, the DW is 1,704. If the DW value is close to 2 or 2, the Durbin Watson number shows 1,704, which means it is still within the normal range, which is between -2 to 2. So that it can be said that there is no autocorrelation

#### d. Multiple Linear Regression Analysis Test

Table 4. Multiple Linear Regression Analysis Test

Variabel	B	T	Sig.t
(Constant)	5.408	20.795	.000
Economic Growth Rate	-.004	-.655	.529
Increase in Provincial Minimum Wage	-.268	-5.601	.000

Source: Data processing results SPSS 25.0

Based on the table above, it can be seen that the regression equation is as follows:

$$Y = 5,408 - 0,004X_1 - 0,268X_2$$

Explanation of the multiple regression equation as follows,

- From the multiple linear regression equation above, a constant value of 5.408 is obtained. This constant value indicates that the poverty rate is 5.408 percent if the provincial minimum wage increases and the economic growth rate is zero.
- The regression coefficient for the increase in the provincial minimum wage variable is 0.004, meaning that if the provincial minimum wage increases by one percent, the poverty rate will increase by 0.004 percent, assuming the variable increase in the provincial minimum wage does not change (fixed).
- The regression coefficient of the variable rate of economic growth is 0.268, meaning that if the rate of economic growth increases by one percent, the poverty rate will increase by 0.268 percent, assuming the variable rate of economic growth does not change (fixed).

Based on table 4. It can be seen that the results of the t statistical test are as follows:

- The Provincial Minimum Wage increase variable has a significance value of 0.529 ( $> 0.05$ ), so it is concluded that the Provincial Minimum Wage increase variable has no significant effect on the poverty variable (H1 is rejected).
- The economic growth rate variable has a significance value of 0.000 ( $< 0.05$ ), so it is concluded that the economic growth rate variable has a significant effect on the poverty variable (H2 is accepted).

Based on the SPSS calculation, a significance value of 0.001 ( $< 0.05$ ) is obtained, so it can be concluded that the variable increase in the Provincial Minimum Wage and the rate of economic growth have a significant effect simultaneously (together) on the poverty level. Thus, the hypothesis in this study is accepted.

It is known that the Adjusted R Square value is 0.759, which means that the increase in UMP and the rate of economic growth contribute a combined effect of 75.9% to the poverty variable, and other variables outside this study influence the remaining 24.1%.

#### 4. CONCLUSION

Based on the study results, it shows that the increase in UMP partially has no significant effect on the poverty rate in DKI Jakarta. In contrast, the economic growth rate significantly affects the poverty rate in DKI Jakarta. Based on the research results, it was found that the variable increase in the Provincial Minimum Wage and the rate of economic growth simultaneously had a significant effect on the poverty rate in DKI Jakarta.

From the analysis of the coefficient of determination, it is known that the increase in the Provincial Minimum Wage and the rate of economic growth contribute a combined effect of 75.9% to the poverty variable in DKI Jakarta and other variables outside this study influence the remaining 24.1%.

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