The Effects of Minimum Wage, SMEs, and Investment on Employment Absorption

Lilla Silviatul Hikmah\textsuperscript{1,}, Sishadiyati\textsuperscript{2}

\textsuperscript{1,2}Universitas Pembangunan Nasional “Veteran” Jawa Timur, Indonesia

Corresponding Author: 20011010132@student.upnjatim.ac.id\textsuperscript{1,2)

Keywords: MSMEs, Labor, Investment.

Abstract: The central issue faced by Indonesia is how to optimize its abundant yet undertrained human resources to support development. The goal is for the majority of the population not to be a burden on development but rather to be an asset in advancing the country. In the context of economic development in developing countries, such efforts aim to increase economic growth, provide more job opportunities, absorb abundant labor, equalize income distribution, reduce regional disparities, and achieve a balanced economic structure. This research will discuss several ideas regarding the role of Provincial Minimum Wage, the number of Micro, Small, and Medium Enterprises (MSMEs), and the value of MSME investments in the aspect of labor absorption in East Java Province. This research activity is conducted to understand whether the Provincial Minimum Wage, the number of MSMEs, and the value of MSME investments contribute to labor absorption and to compare the analysis results of these sectors regarding labor absorption. This research is important because Micro, Small, and Medium Enterprises (MSMEs) are not only economic drivers but also major determinants of employment. In-depth understanding of this sector’s role in the economic growth of East Java Province will provide a solid foundation for development planning in terms of sustainable labor absorption. This research applies a quantitative approach and uses secondary data from the years 2013-2022. The method used is multiple linear regression analysis using the SPSS application.
Introduction

Economic growth involves significant changes in the structure of life such as job creation to distribute income evenly and absorb labor to reduce unemployment rates. Several factors and specific quantities can influence development in East Java Province. Some factors affecting economic growth include investment, technology, labor, knowledge, and the number of business units. Labor plays a crucial role in the process of economic development, where the quality and quantity of human resources are the main factors influencing economic growth.

According to Subandi (2014), one of the challenges in advancing the Indonesian economy is the issue of employment (Sogen, 2023). Indonesia, as a developing country with an agrarian-based economy, needs to undergo transformation towards realizing efforts to support the agricultural sector. This is because the business sector is considered to be able to lead several other sectors towards a more advanced economy.

This is based on the theory presented by Solow (1956), where Robert Solow in his book "A Contribution to the Theory of Economic Growth" argues that economic growth is related to the transformation of production elements in the form of physical capital resources (investment and savings) and labor (population growth). Harrod Domar (1946) describes a simple economic structure, where his theory defines that the economic growth of an area is considered through the addition of capital and labor for national development (Rozali, 2020). In this developing country, in the context of economic development, the goal is to achieve equitable outcomes from economic growth, including increasing the rate of economic growth, income distribution, improving job opportunities, reducing disparities between regions, and achieving a balanced economic structure.

As one of several provinces in Indonesia with a relatively high population, East Java Province faces rapid population growth and uneven distribution, which will affect labor absorption and development in the region. The main challenge often faced is how to optimize the abundant yet undertrained human potential to support development, so that the majority of the population not only becomes a burden but also becomes an asset for development.

Building businesses, whether on a small or medium scale, is one of many steps towards improving community welfare and providing a higher quality of life. To meet the needs of the community, job opportunities that can accommodate available labor are required. The expansive growth of the business sector can absorb excess labor from various sectors in rural areas, stimulating economic growth in a region. This spontaneously contributes positively to the widening of employment opportunities, which then drives the development of several sectors that can increase workers' incomes.

One of the efforts undertaken by the East Java government to balance labor demand is through the wage system via minimum wage policies. Implementing minimum wages is an effort aimed at increasing workers' per capita income so that the average wage level of the workforce can rise. According to M.L. Jhingan (2016), as stated by Ika Rahmawati (2019), wage increases can indeed increase the quantity of labor through the Old-Fashioned Style Hypothesis, which states that higher wages stimulate population growth, which then generates increased interest in food, prompting producers to increase production, particularly by increasing the number of workers, who act as leaders in creation that can be conveyed.
Apart from wages, one of the paradigms for achieving good economic growth with significant labor absorption is through empowerment strategies. One form of empowerment in Indonesia is the empowerment of Micro, Small, and Medium Enterprises (MSMEs), which directly or indirectly influence labor absorption.

The MSME sector has shown resilience and endurance, as seen in 1998 during the economic crisis that could cripple large industrial sectors. MSMEs have proven their ability to withstand this phenomenon for several reasons. Firstly, this sector typically has no foreign debt, minimal bank debt due to limited capital usage, and utilizes local raw materials with a focus on export activities. While the contribution of MSMEs to the national income may not be as significant as that of large industries, their continuity and consistency indicate their capability to support economic sustainability, providing consistent job opportunities for creatively skilled workers with lower education levels as a source of income, reducing unemployment rates, and creating income distribution equality.

These facts demonstrate that small businesses remain viable even during economic crises. According to Sofyan's research (2017), Indonesia's economy did not collapse due to the significant contribution of small business actors. On the other hand, the impact of currency value fluctuations resulting from economic developments significantly affects and is felt by large businesses (Novitasari, 2022). According to Aknolt, the crises in 1998 and 2012 showed that this sector could stand firm, especially during crisis conditions, along with continued positive growth (Gregorius Rio and Pitaloka, 2020).

Apart from experiencing growth leading to positive aspects of the economy, Micro, Small, and Medium Enterprises (MSMEs) face many challenges in their development. Some obstacles include limited access for MSMEs in remote areas to obtain information and assistance, limited capital, low education levels of MSME actors in remote areas, reliance on family business characteristics that often perpetuate inherited issues like limited capital, family-oriented operations, and a lack of highly skilled human resources. These factors can negatively impact MSME growth, particularly in remote areas, and lead to limited available information.

The development of MSMEs serves not only as a source for people to earn income and distribute income evenly but also as a significant provider of job opportunities. Moreover, MSMEs contribute to national income. Therefore, the development of MSMEs should continue to be addressed by leveraging the specialization potential in each region as a comparative advantage. Support from relevant parties is also needed to help overcome various challenges faced by MSMEs.

The government, as a policy stakeholder, has a crucial task in maintaining the sustainability of MSMEs. Several government projects aim to stimulate the growth of MSMEs both before and during the pandemic. The classification of MSME issues can be divided into three types. First, capital limitations, product development, marketing access, and the quality of human resources, which are classical and fundamental issues. Second, common issues such as relevant parties and agency involvement in providing funding, tax solutions, legal issues, and collateral. Third, more complex issues including exporting goods, product design development,
market penetration, licensing, patents, and legal matters. Sukirno (2004) stated that investment activities empower the community to increase financial activities and create valuable opportunities, public income, and continuously improve the welfare of the community. Thus, the greater the government's interest in open goods, it is believed to empower regional development in an area, ultimately driving the expansion of monetary development. (Hidayat, Ekonomi and Brawijaya, 2019).

In the business world, new investments and expansions are needed to increase limits and create new products. Enhanced capabilities allow for the hiring of new employees and salary increases for existing employees, which in turn drive economic growth in the East Java region. Therefore, actual area development requires efforts to balance the economic growth control of a country. From the interest perspective, investment expansion will support monetary development through successful interest eras. However, from the supply perspective, investment expansion will empower economic growth through increased capital reserves, leading to increased production limits. Therefore, the value of the business will determine how much labor absorption is made. Hypothetically, the higher the investment value in the Micro, Small, and Medium Enterprise areas where the investment made is concentrated labor and in the Large Modern Area where the business is serious capital, the higher the position created.

This is in line with Keynesian theory. Keynes proposed that government policies could be used to make macro-level improvements, reduce unemployment, create full employment, and achieve greater equality. Production activities and responsibilities for their elements can still be divided into private sectors, but the government also has a duty to regulate the economy. For example, during economic crises, public authorities must take actions that can easily retain workers who cannot work in the private sector.

This research will discuss several ideas related to the role of provincial minimum wages, the number of MSMEs, and the value of investment in the Micro, Small, and Medium Enterprises (MSMEs) sector on aspects of employment absorption in East Java Province. This is done to understand whether provincial minimum wages, the number of MSMEs, and the value of investment in the MSME sector contribute to employment absorption by comparing the results of regression analysis tests. East Java Province, as one of the central economic sectors in Indonesia, plays a key role in national development. In 2022, the MSME sector was able to contribute 96.3% to employment, as revealed by data from the Cooperative and SME Agency of East Java Province. This shows that the main task holder in the economic system in East Java in terms of workforce absorption is the MSME sector.

Furthermore, the contribution of MSMEs to the economic growth of East Java is also significant. The Gross Regional Domestic Product (GRDP) receives a contribution from the MSME sector of 58.36%, based on data from the Central Statistics Agency of East Java Province in 2022. These facts indicate that MSMEs have a significant role in driving economic growth in East Java.

In this research, the issue to be discussed is whether minimum wages, MSMEs, and investment affect employment absorption in East Java Province. The importance of this research lies in the fact that minimum wages, Micro, Small, and Medium Enterprises (MSMEs), and investment are not only drivers of the economy but also primary determinants of
employment opportunities. A deep understanding of these sectors in the economic growth of East Java Province will provide a solid foundation for sustainable development planning. By exploring data and trends from 2013 to 2022, the aim is to provide an accurate picture of economic dynamics, offer critical insights into employment, and assist in formulating appropriate policies.

A. Labor

Boediono (1992) states that labor is one of the factors of production used in the production process. In the production process, labor receives income as a reward for the work done, namely wages. Thus, the understanding of labor demand is labor demanded by employers at various wage levels. Meanwhile, according to Simanjuntak (2001), labor refers to people who are already or currently employed, those actively seeking employment, and those engaged in other activities such as schooling or household chores, with an age limit of 15 years.

B. Labor Absorption

Overall labor absorption is the total number of labor used in a particular unit, but labor absorption, according to Handoko (2014), is the total number of specific labor used in a particular unit. External and internal variables are two components that influence the absorption of the workforce.

C. Provincial Minimum Wage

Sadono Sukirno in Kurniawan (2019) defines wages as compensation for services provided by an individual in a business relationship, either in the form of cash or goods; in the context of work, this compensation is expected to assist the individual and their loved ones. In monetary hypothesis, wages are installments received for various types of services rendered and delivered by labor to business players, particularly Micro, Small, and Medium Enterprises (MSMEs).

According to the Central Statistics Agency, Provincial Minimum Wage, also known as UMP, is the lowest wage permitted by law for each local or urban area within a province. Research by Andi Neno Ariani (2016) in Sandy (2018) states that an increase in wage value can incentivize work in the life of an esteemed doctor, but assuming that the compensation increase is set too high and not accompanied by an increase in workload.

D. Micro, Small, and Medium Enterprises (MSMEs)

Economic policy in the context of Economic Democracy, as mandated by the 1945 Constitution and reinforced by MPR Decree No. XVI/MPR-RI/1998, emphasizes the importance of empowering the people's economy, particularly Micro, Small, and Medium Enterprises, as an integral part of the increasingly proportional national economic structure. (Wijaya, Pudjowati and Fattah, 2020).

Research by Bustam (2016) shows that the number of MSMEs significantly affects labor absorption, indicating that an increase in the number of MSMEs can increase labor absorption (Tasyim et al., 2021). An increase in labor demand in the MSME sector will occur due to rapid development, thus increasing the rate of labor absorption in that sector. Labor force development will follow the increase in the number of MSMEs and production, meeting output

https://equatorscience.com/index.php/jabter
demand.

E. Investment

According to Muljana (2009), investment is crucial for progress initiated by public authorities and society. Improvements made by public authorities largely constitute foundations or frameworks, such as actual structures or institutions that have fundamental capabilities in creating opportunities and supporting the establishment, planned operations, and promotion of labor and product activities, as well as various activities in the monetary, social, political, welfare, and security sectors. Meanwhile, improvements made by regions mostly provide labor and products directly to meet consumer needs, whether for individuals, families, or industries (Bangun et al., 2020).

According to Sheylla's research (2020), the more production generated by MSMEs, the more benefits or advantages the organization obtains. If MSMEs can achieve maximum results, then what they need to do is make investments, meaning one of the actual efforts is to expand business and retain many jobs.

Research Method

This research is a quantitative study conducted in the province of East Java based on the phenomenon addressed in this research. The samples used in this study are labor absorption, provincial minimum wage, the number of MSMEs, and investment value in East Java Province for the years 2013-2022. Secondary data used in this research consist of time series data for the period of 2013-2022. This study is carried out using a literature review approach, including examining archives, books, journals, and previous research related to the research subject. The research employs the multiple linear regression analysis method.

Based on the above framework, the regression equation model used in this study is as follows:

$$LA = a + \beta_1 PMW + \beta_2 NM + \beta_3 MIV + \varepsilon_t$$

Keterangan:

- LA = Labor Absorption
- PMW = Provincial Minimum Wage
- NM = Number of Micro, Small, and Medium Enterprises
- MIV = Micro, Small, and Medium Enterprise Investment Value
- \(a\) = Coefficient as intercept
**Hypotheses**

Based on the background description, previous research findings, and theoretical framework employed, the hypotheses in this study are as follows:

1. It is hypothesized that the provincial minimum wage affects labor absorption in East Java Province.
2. It is hypothesized that the number of MSMEs affects labor absorption in East Java Province.
3. It is hypothesized that investment value affects labor absorption in East Java Province.

**Result and Discussion**

The regression equation obtained is useful for testing the influence of Provincial Minimum Wage, the Number of MSMEs, and Investment Value in the MSME sector on Labor Absorption in East Java Province for the years 2013-2022. The results of the regression testing can be seen as follows:

Table 1. Results of Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Coefficients(\beta)</th>
<th>Unstandardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
</tr>
<tr>
<td>(Constant)</td>
<td>62,553</td>
</tr>
<tr>
<td>Provincial Minimum Wage (PMW)</td>
<td>0,000002</td>
</tr>
<tr>
<td>Number of MSMEs (NM)</td>
<td>0,000007</td>
</tr>
<tr>
<td>MSME Investment Value (MIV)</td>
<td>-0,001</td>
</tr>
</tbody>
</table>

Dependent Variable: Labor Absorption (LA)

*Source: Data processed (SPSS output, 2024)*

Based on the regression results shown above, the regression equation obtained is as follows:

\[ LA = 62,553 + 0,000002 \text{ PMW} + 0,000007 \text{ NM} - 0,001 \text{ MIV} + e \]

Based on the regression results, the regression equation can be concluded as follows:

1. The constant value is 62.553, indicating that labor absorption is 62.553%.
2. The regression coefficient of Provincial Minimum Wage (PMW) is 0.000002, meaning that for every one unit increase in Provincial Minimum Wage (PMW), labor absorption increases by 0.000002%.
3. The regression coefficient of the number of MSMEs (NM) is 0.000007, indicating that for every one unit increase in the number of MSMEs, labor absorption increases by 0.000007%.
4. The regression coefficient of MSME investment value (MIV) is -0.001, meaning that for every one unit increase in MSME investment value, labor absorption decreases by 0.001%.
Based on the results shown in the table, the R-Square value is 0.877, which means that the Provincial Minimum Wage, the Number of MSMEs, and the Investment Value of MSMEs collectively explain 87.7% of the variation in Labor Absorption, while the remaining 12.3% is explained by other variables outside the scope of this study.

Based on the results shown, the calculated F value is 14.277, while the critical F value is 4.76, indicating that the calculated F value (14.277) is greater than the critical F value (4.76). Additionally, the probability is less than 0.05, specifically 0.004 < 0.05. Therefore, it can be interpreted that there is a significant effect of Provincial Minimum Wage, the Number of MSMEs, and the Investment Value of MSMEs on Labor Absorption.

Based on the results shown, the calculated F value is 14.277, while the critical F value is 4.76, indicating that the calculated F value (14.277) is greater than the critical F value (4.76). Additionally, the probability is less than 0.05, specifically 0.004 < 0.05. Therefore, it can be interpreted that there is a significant effect of Provincial Minimum Wage, the Number of MSMEs, and the Investment Value of MSMEs on Labor Absorption.

**Discussion**

*The Influence of the Provincial Minimum Wage on Labor Absorption in East Java Province*

The Provincial Minimum Wage has an influence on Labor Absorption in East Java Province because of the large number of industrial sector factory developments which have resulted in an increase in the East Java UMP. Apart from factory construction, there are also many mall and hotel developments in East Java. The increase in the UMP in East Java can...
encourage workers to get jobs and also the business sector. This is in line with research by Ika Rahmawati (2019) which shows that

The minimum wage for workers in East Java Province shows a positive and significant relationship, so by increasing the minimum wage in East Java, entrepreneurs will strive to be able to increase and increase the number of business units, so it is hoped that with the increase in the number of business units, entrepreneurs will also will increase labor absorption.

*The Influence of the Number of MSMEs on Labor Absorption in East Java Province*

If you look at the test results, the number of small and medium enterprises (MSMEs) has no effect on labor absorption. This happens because there are still many organizations that do not have a legal umbrella, because the MSME sector is difficult to distinguish from conventional organizations founded by the community, so the formation of MSMEs is easier when compared to large organizations. In 2018, the Creative Economy Organization noted that as many as 96% of MSMEs did not have legal substance, which means that business people do not focus on legal security or business improvement, but rather on benefits and business design with a future.

This is supported by research by Dimas et al (2021). In classical theory, the role of SMEs in development states that as regions develop, they will become smaller and will be displaced by the role of large businesses. This research shows that the number of SME business units does not partially contribute to labor absorption in North Sulawesi.

*The Influence of MSME Investment Value on Labor Absorption in East Java Province*

The investment value of MSMEs influences labor absorption in East Java Province. Increasing investment cannot increase labor absorption in the MSME sector. The results of this calculation are contrary to the theory put forward by Keynes, that investment and labor absorption have a positive relationship, namely the higher the investment, the higher the labor absorption. This happens because investment is a business field that is capital intensive, so to carry out its activities, especially in the MSME sector, there is no need to increase employees or labor, because to carry out production they can use machines that are technologically advanced and have higher productivity compared to humans. Another factor that can cause investment value to have a negative effect on labor absorption in East Java Province is the quality and continuity of production. If the quality and continuity of MSME production is unstable, micro business actors will reduce their workforce more.

This is supported by research (Rahmawati, 2019) that investment in labor in East Java Province shows a negative and significant relationship. The results of this research are also supported by research by Febryana (2016) which shows that the negative and significant relationship between domestic investment variables and labor absorption is due to increasing investment.

New capital such as adding sophisticated equipment and machinery can reduce domestic foreign exchange reserves and can reduce the creation of new jobs, so that increasing domestic investment to add new, more modern capital goods, the role of labor can be replaced and the need for labor will decrease.
Conclusion

Statistical tests were carried out to determine the simultaneous influence of the independent variables Provincial Minimum Wage, Number of MSMEs, and MSME Investment Value on Labor Absorption. The results show that the calculated F value is greater than the F table or 4.76, and the F test significance value is less than 0.05 or 0.004 less than 0.005. So, H0 is rejected and H1 is accepted, which shows that the independent variables as a whole have an effect on labor absorption simultaneously and significantly.

It is hoped that the East Java Provincial government will pay more attention to the role of MSMEs in increasing labor absorption in East Java Province by providing training and education related to MSMEs to the people of East Java so that they can improve the skills, managerial and technical skills needed to form their businesses as well as support and facilitate product marketing in order to increase production and income of MSME players so that more workers are absorbed in East Java Province.

References


https://doi.org/10.22437/jpe.v16i1.11825.


