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Analysis of The Relationship Between Minimum Wage Policy, Distribution of Job Availability, Household Spending Behavior and Welfare Level in Indonesia

Hedar Rusman[1✉], Dina Agnesia Sihombing[2], Syeh Assery[3], Isnawati Osman[4], Victor Lamboy Sinaga[5]
(1) Universitas Nusa Bangsa (2) (5) Institut Bisnis dan Multimedia Asmi (3) STIE Widya Wiwaha
(4) Universitas Hasanuddin
Email: hedarrusman@gmail.com[1✉]

Abstrak

Tujuan dari penelitian ini adalah untuk menganalisis dampak kenaikan upah minimum terhadap kesejahteraan rumah tangga pekerja. Peneliti melakukan analisis empiris melalui survei terhadap pekerja di beberapa kota di Indonesia. Hasil dari penelitian menunjukkan bahwa kenaikan upah minimum secara signifikan mengurangi ketimpangan pendapatan, terutama di kalangan pekerja formal. Upah minimum membantu mempersempit kesenjangan antara pekerja dengan upah terendah dan pekerja dengan penghasilan lebih tinggi. Namun, dampak dari kenaikan upah minimum ini tidak merata, pekerja informal adalah pihak yang teridentifikasi sering tidak merasakan manfaatnya yaitu semakin lebarnya kesenjangan antara pekerja formal dan informal. Oleh karena itu, untuk memastikan manfaat yang adil dan mengatasi ketimpangan pendapatan secara lebih luas, peneliti menyarankan pada pemerintah agar menyusun kebijakan yang lebih komprehensif serta merumuskan regulasi terkait peningkatan investasi baik dari dalam dan luar negeri.

Kata Kunci: *Upah Minimum, Pendapatan, Pemerintah*

Abstract
The purpose of this study is to analyze the impact of minimum wage increases on the welfare of workers' households. Researchers conducted empirical analysis through surveys of workers in several cities in Indonesia. The results of the study indicate that minimum wage increases significantly reduce income inequality, especially among formal workers. Minimum wages help narrow the gap between workers with the lowest wages and workers with higher incomes. However, the impact of this minimum wage increase is uneven, informal workers are the parties identified as often not feeling the benefits, namely the widening gap between formal and informal workers. Therefore, to ensure fair benefits and address income inequality more broadly, researchers recommend that the government formulate more comprehensive policies and formulate regulations related to increasing investment from both within and outside the country.
Keyword*: Minimum Wage, Income, Government*

INTRODUCTION

The purpose of minimum wage implementation is to set a lower salary limit for workers' remuneration, thus protecting low-income people. However, the impact of minimum wage implementation on employment is one of the most controversial aspects of studying minimum wage policy (Alfiah et al., 2023). Under these conditions, minimum wage implementation has the potential to improve workers' welfare by shifting the wage distribution towards a higher level, as well as reducing income inequality. In an ideal scenario, the minimum wage functions as a remuneration threshold without causing negative impacts on employment (Anggraini et al., 2024). However, if the implementation of minimum wage reduces the distribution of labor by increasing costs that employers cannot bear, it may lead to the unemployment of workers with incomes below the threshold. This can happen, especially in sectors that rely on low-skilled labor, where employers may choose to reduce the number of workers or replace them with automation. Therefore, it is important to design minimum wage policies by considering various factors in order to achieve the goal without causing adverse side effects (Sihombing & Sihombing, 2022).

The lack of consensus on the impact of the minimum wage on employment is both empirical and conceptual. Theoretically, in a perfect competition model, setting a minimum wage above the equilibrium wage will have a negative impact on employment, especially for individuals working at the minimum wage level. In this model, firms will reduce the number of workers employed due to increased labor costs if the minimum wage exceeds the market-determined wage level. This impact will be greater if the price elasticity of labor demand is also large, namely when labor demand is very sensitive to changes in wages

(Sudirjo et al., 2024). Therefore, by raising wages to a fairer level, setting a minimum wage can increase employment, although the impact remains uncertain and depends on the elasticity of the labor's marginal productivity value curve, marginal production costs, and the labor supply curve. The efficiency wage theory also challenges the certainty of determining the impact of setting a minimum wage on employment (Pono et al., 2019). If the increase in wages due to the setting of a minimum wage is able to increase labor productivity, then employment reductions may not occur, in accordance with previous research that states that higher wages can increase motivation and work efficiency (Dharmawan et al., 2024).

When investigating the impact of minimum wages on employment in developing countries, it is important to consider the high level of informality in their economies. Raising the minimum wage may result in individuals previously employed in the formal sector losing their jobs and transitioning to the informal sector due to high levels of informality. This may increase the supply of labor in the informal sector and lower the wages of informal workers, potentially exacerbating income inequality between the formal and informal sectors (Gai et al., 2024). However, previous research has noted that although most studies in developing countries find negative employment impacts from minimum wage increases, these impacts are often economically insignificant. This suggests that despite the potential shift of jobs from the formal to the informal sector, the overall effect on the labor market may not be very large, and minimum wage policies can still play an important role in reducing income inequality (Sihombing, 2022).

On the other hand, the distributional impact of the minimum wage will depend on whether the change in its value only affects formal workers or whether it also affects the wages of informal workers. The minimum wage should only affect the remuneration of formal employees (Pono et al., 2019). Under this assumption, and in a scenario where there are both formal and informal wage earners, the impact on total wage inequality is, a priori, ambiguous. An increase in the minimum wage may reduce wage inequality among formal workers by raising the wage floor, but at the same time, it may widen the wage gap between formal and informal workers since informal workers do not directly benefit from the increase (Rahayu et al., 2018). On the other hand, if we establish the minimum wage as the benchmark for informal workers' remuneration, we might witness a reduction in overall wage inequality. This emphasizes the importance of the minimum wage's influence not only on the formal sector, but also on how it can affect wage perceptions and practices in the informal sector.

METHOD

Empirical analysis was conducted for this study through a survey that targeted full-time salaried workers, defined as individuals who typically work more than 40 hours a week. The criteria for the study subjects include workers with a positive income, aged between 18 and 50 years for women and up to 55 years for men, and those living in urban areas. We designed the survey to gather comprehensive data on how minimum wages influence different aspects of the urban labor market. The survey concentrates on full-time workers to identify potential changes in income distribution and inequality due to minimum wage policies. The use of positive income as a criterion ensures that the collected data is relevant for analyzing the impact of the policy on groups that are actively involved in the formal labor market. We adjust the age limits for women and men based on differences in retirement age to encompass a range of career stages and work experiences. This study focuses on urban areas to explore the impact of minimum wage policies in an environment with more complex and varied labor market dynamics.

RESULT AND DISCUSSION

Over the study period, real minimum wage increases have shown to be an important factor in reducing wage inequality across the distribution, albeit with some exceptions for both the total number of wage earners and the group of formal employees as a whole. In this context, the minimum wage serves as a tool to set the income threshold, especially for workers at the bottom of the wage distribution. Focusing on the bottom of the distribution shows that the introduction of the minimum wage has a significant impact on setting the income floor, which directly affects the lowest-paid workers. Thus, the minimum wage is more effective in reducing inequality among formal wage earners, who are at the most vulnerable income levels. Increasing the minimum wage leads to an increase in income for workers previously earning below this threshold, thereby narrowing the income gap with higher-earning workers. However, this impact is not entirely uniform across the wage distribution.

While there is a reduction in inequality among formal workers who earn low wages, groups of workers with higher incomes or informal workers may not experience the same benefits. In this case, an increase in the minimum wage may cause a shift in the wage distribution, with the differences between formal and informal workers becoming more pronounced. The minimum wage policies directly benefit formal employees, resulting in a larger income increase, while the policy change has no effect on informal workers. Thus, while increases in real minimum wages help reduce inequality among formal workers, their impact may not fully reach the entire spectrum of the labor market. This underscores the need for more comprehensive policies that focus not only on minimum wages but also take into account broader labor market conditions to ensure equitable benefits and reduce overall wage inequality.

Countries that experience significant reductions in income inequality typically also show improvements in the distribution of labor income. This is consistent with the existing consensus on the importance of labor income in reducing inequality. Policies and factors that influence the distribution of income in the labor sector often contribute to the reduction in income inequality. One of the most common factors identified in the literature is the role of educational benefits. Education, especially higher education, plays a key role in increasing labor income and reducing inequality. Higher education is usually associated with increased skills and productivity in individuals, which in turn can lead to higher incomes. Individuals with better education often have access to higher-paying jobs and better career opportunities. This helps improve the distribution of income by reducing the gap between low- and high-income groups. Investment in education is considered an important strategy for reducing income inequality because it provides more equal opportunities and improves overall economic well-being. As a result, policies that support greater access to and quality of education can significantly contribute to improving income distribution and reducing economic inequality.

We measure wage dispersion by comparing the successive gaps in the wages of each income percentile to the income of that reference percentile, if the reference percentile lags behind the wage dispersion by one period. The results show that an increase in the minimum wage has an effective equalizing effect for all workers, especially formal workers. However, unregistered or informal workers do not experience this effect. In other words, while the minimum wage can reduce inequality among registered formal workers, workers in the informal sector do not benefit equally from this policy. An increase in the minimum wage raises incomes at the bottom of the distribution for formal workers, thereby narrowing the wage gap between them. However, because informal workers are often not registered in the formal system and are not affected by the minimum wage policy, the gap between formal and informal workers remains, and it may even widen if informal workers do not experience a comparable increase in their incomes.

According to the analysis, the increase in the minimum wage significantly contributed to reducing the gap between workers with very low incomes and workers with high incomes. Both the workforce as a whole and formal workers saw this decrease in the gap, indicating that the minimum wage policy had a substantial equalization effect. Higher minimum wages not only helped to increase the income of workers below a certain income threshold, but they also narrowed the gap between low- and high-income groups. This finding suggests that the minimum wage can serve as an effective tool to reduce income inequality by narrowing the gap between low- and high-income groups. By providing direct benefits to low-wage workers, the minimum wage policy not only helps to improve their welfare but also plays a role in addressing income inequality more broadly across the labor market. The policy's contribution to income equality reflects its role as an important instrument in efforts to reduce economic and social inequality, especially for workers at the bottom of the income distribution.

The analysis's results show that the equalization effect of real minimum wage increases is very strong across most of the wage distribution, with the most significant impact at the bottom of the distribution. This is especially true for formal workers, where minimum wage increases are effective in reducing inequality by increasing the income of workers at the bottom of the distribution. This equalization effect suggests that minimum wage policy contributes substantially to the reduction of income inequality, especially for low-wage workers, thereby improving the income distribution at the bottom of the income scale. Thus, these results confirm the important role of minimum wages in reducing income inequality, especially among formal workers at the bottom of the income distribution. Although other factors also affect income distribution, the increase in the minimum wage has a significant and positive impact on income equalization at the bottom.

The increase in the minimum wage resulted in an average reduction in income inequality for all employees. This decrease suggests that each increase in the minimum wage contributes to a reduction in income inequality, both among formal workers and across employees. Formal workers, in particular, experienced a larger decrease in inequality, reflecting a more significant impact of the minimum wage policy in reducing income inequality in this group. Overall, these findings confirm that the minimum wage policy has a beneficial effect on reducing income inequality, especially among formal workers. The larger decrease in inequality among formal workers suggests that the minimum wage is effective in narrowing the income gap in this segment, contributing to a more equal distribution of income compared to all employees in general.

CONCLUSION

The conclusion from the analysis above is that the increase in the real minimum wage has a significant impact on reducing income inequality, especially among formal workers. During the study period, the increase in the minimum wage caused an average decrease in income inequality for all employees. This decrease reflects the fact that each increase in the minimum wage contributes to a reduction in income inequality, with a greater effect among formal workers. The minimum wage is implemented as a tool to set a floor for income, which directly affects workers with the lowest wages, thereby narrowing the gap between them and workers with higher incomes. However, the impact does not spread evenly across the income distribution. The minimum wage policy can widen the gap between formal and informal workers, as informal workers, often not registered in the formal system, do not feel its benefits. Overall, these findings indicate that the minimum wage policy can serve as an effective tool to reduce income inequality, especially at the bottom of the income distribution. However, the need for more comprehensive and integrated policies, which take into account broader labor market conditions, is essential to ensure equitable distribution of benefits and address overall wage inequality. Increased investment in education also plays an important role in supporting improvements in income distribution and reducing income inequality more broadly.

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