The Effect of Minimum Wage on Employment, Economic Growth and Social Welfare in the Ex Besuki Residency of East Java-Indonesia

Sunarsih, Mohammad Saleh, Syamsul Huda, I Wayan Subagiarta

Abstract: The development of human resources is part of the problem of economic development which aims to expand employment and improve the welfare of the community, especially in the regions so that the planning must be comprehensive. The most important resource of every organization and nation in a wider scope is human. Organizations that want to grow and develop must begin with developing their human resources. Human resources that function as labor must be able to do work to produce goods and / or services to fulfill both their own needs and the community's just to be able to gain their income. The research aims to analyze and examine the influence of the minimum wage on economic growth; analyze and examine the influence of the minimum wage on the welfare of the community in the ex-Residency of Besuki East Java, Indonesia. Human development means positive growth and changes in the level of welfare. This must occur in all aspects of life like economic, social, political, cultural and environmental aspects, therefore the main focus of human development lies in humans and their welfare (BPS, 2015). The results of the study concludes that the minimum wage had a significant effect on employment, economic growth and community welfare in the Ex Besuki Residency of East Java, Indonesia.


1. INTRODUCTION
HUUMAN Resources are the wealth of a country, which is why the development of a nation aims to create a decent environment for their people in order to ensure they can meet their needs of safety, prosperity and health. Therefore investment in human capital is very important. This investment is the focus of the government’s efforts to increase employment. Investment in human capital is needed especially in countries that face unemployment issues such as Indonesia. In principle, the difference between industries is that the employer has no control over the level of wages in paying labor. There are many possibilities, one of them is the possibility of workers are getting the minimum wage in correspondence with the low income of the company. The minimum wage is income in the form of money can give a little picture of the size of development. As a result, money has an important meaning to expand choices especially for the poor in improving their welfare. If the price of goods rises, the purchasing power tends to decrease and vice versa. The minimum wage is determined by the Governor based on recommendations from the Provincial Wages Council and / or Regents / Mayors and is determined based on the needs of decent living and productivity and economic growth. The Wage Council consists of elements of government, employers’ organizations, trade unions / labour unions, universities and experts. Membership of the National level Wage Council is appointed and dismissed by the President. The procedure for formation, composition of membership, procedures for appointment and dismissal of membership, as well as the duties and procedures of the Wage Board are regulated by a Presidential Decree. The task is to provide advice and considerations, and formulate wage policies that will be determined by the government, as well as for the development of a national wage system established by the National, Provincial and Regency Wage Councils. Components and the implementation of the stages of achieving decent living needs are regulated by a Ministerial Decree. Research purposes; Analyze and examine the effect of the minimum wage on employment.; Analyze and examine the influence of the minimum wage on economic growth; Analyze and examine the influence of the minimum wage on the welfare of the community in the ex-Residency of Besuki East Java, Indonesia.

2. LITERATURE REVIEW
State wages have been recommended for four main reasons, namely: the aims to build minimum wages without competitive pressures and employers should not force labor; to improve the efficiency of labor and industry; to reduce strikes; increase consumer purchasing power. Therefore, it will increase the number of goods produced and consumed, and increase employment (Douglas,P.H.1934:184). Law No.13 2003, about employment, Employment defines wage as workers’ rights which are received and expressed in the form of money as compensation from employers to workers / employees who are stipulated and paid according to a contact, agreement, or legislation, including benefits for workers / laborers and their family for a job and / or service that has or will be done. Determination of this minimum wage is done once a year and is set no later than 40 (forty) days before the date of entry into force of the minimum wage, namely January 1. Basic minimum wage set by Minister of Labor and Transmigration Regulation No. 13 of 2012 concerning Components and Implementation of Stages of Achieving Decent Life Needs including: Minimum Life Needs; Consumer price index; Ability, development and continuity of the company; Wages generally apply in certain regions and between regions; Job market conditions; The level of economic development and per capita income. Decent Living Needs, a standard of needs that must be met by a single worker or laborer to be able to live properly, both physically, non-physically, and socially for one month. Every worker has the right to social security which enables his full development as a dignified human being. The minimum wage is seen as a source of take home pay as a safety net. The
minimum wage is expected to meet the needs of a worker for education, health, transportation and recreation. The consequences of decent wages that apply nationally provide incentives for all local governments to build physical infrastructure for the industry and strive to eliminate the high-cost economy in the form of corruption, illegal levies, complicated bureaucracies, and others. Social Welfare is a condition for fulfilling the material, spiritual, and social needs of citizens to be able to live properly and be able to develop themselves, so that they can carry out their social functions (Law No. 11 of 2009). Social welfare can also be defined as the welfare of a society. The implementation of Social Welfare is pursued in a directed, integrated and sustainable manner carried out by the Government, regional governments and communities in the form of social services to meet the basic needs of every citizen, which includes social rehabilitation, social security, social empowerment and social protection. The aim is to improve the level of welfare, quality, and survival; restore social functions in order to achieve independence; improve social security of the community in preventing and handling social welfare problems. Social welfare depends on the use of his income, not on his own level. Human development is a process of complementary choices, the most important of which is to lead a long and healthy life, educated and enjoy a decent standard of living. The use of life expectancy as one of the main indicators of human development is under consideration: Intrinsic value of longevity, its value to help people pursue a variety of goals and their relationships with other characteristics, such as adequate health and nutrition, good health and education and valuable achievements. Life expectancy is a proxy measure for several other important variables in human development. The importance of life expectancy is mainly related to the value that people attach to living long and healthy. Long life is closely correlated with adequate nutrition, good health and education and valuable achievements. Life expectancy is a proxy measure for several other important variables in human development. Functions that are relevant for well-being vary from the basics such as escaping from morbidity and mortality. Nutritious enough, has mobility, etc., to lead to complex problems such as happiness, achieving self-esteem. Social welfare can be measured by measures such as levels of living, fulfillment of basic needs (basic needs fulfillment), quality of life (quality of life) and human development (human development). (UNDP, 1990: 20; Sen.A, 2002: 8). The importance of life expectancy is mainly related to the value that people attach to living long and healthy. Long life is closely correlated with adequate nutrition, good health and education and valuable achievements. The concept of Human Development as a new paradigm of human development model is a process to expand choices to the community. The most important of these is to include the choice to live long and healthy lives, to be educated and to have access to the resources needed for a decent standard of living. This means a process aimed at developing choices that can be made by humans. The assumption is that improving the quality of human resources will be followed by the opening up of various choices and opportunities to freely determine the way of life for humans. An indicator that describes the development of measurable and representative human development, called the Human Development Index shows the magnitude of the number that each province and district knows the picture of human development in terms of achievement, position, and disparity. As a result, each region can improve development performance through increased capacity and potential human resources. Completion of the definition of the Human Development Index in aggregate measures progress in three dimensions: health, education and income. A combined measure of achievement in the three basic dimensions of human development is: longevity and healthy life in terms of life expectancy at birth, access to education and a decent standard of living. The process of freedom involves empowering and practicing democracy at different levels. Empowered people are able to bring change, whether in their own lives at home or at work, in their communities or on a wider scale. In 2014, Indonesia renewed the HDI calculation to answer the challenges of the international community, due to weaknesses in the calculation of the old method. To apply the new method, available data sources in Indonesia include: Life expectancy at birth; Old school expectations and average length of school; Gross national product per capita is not available at the provincial and district / city level, so it is peroxide with adjusted per capita expenditure. In the old method, the population coverage calculated was the population aged 15 years and over. While in the new method, the population coverage calculated is the population aged 25 years and above according to UNDP recommendations. In addition to comparability with other countries, another important reason is that generally the population aged 25 and over does not attend school anymore. Although a small number are still in school, the amount is not significant. Residents aged 25 years and over are educational stocks owned by a region. Indicators of per capita expenditure are also maintained because they are quite operational in terms of data availability. Basically, the gross national product indicator per capita better describes people's welfare than per capita expenditure. But this data is not available so it is difficult to find it at the district / city level. If per capita expenditure is still used, then there is a change in the calculation of purchasing power parity (purchasing power parity) used. In the old method, there were 27 commodities used in calculating purchasing power parity. While in the new method there are 96 commodities used. This was done because during 1990 to 2015 there had been a lot of changes in people's consumption patterns so that the commodity for calculating purchasing power parity must also be renewed. Life Expectancy Index, is the number of years of life expected to be enjoyed by residents of a region. The way to enter information about birth and death rates per year, so that it can reflect the average length of life of the community. The data of people who have died during a certain period of time is too difficult to obtain, so that the calculation of life expectancy is used by indirect methods. In this case the data needed is the average child born alive and the average surviving child from a woman ever married. The level of welfare is said to increase if there is an increase in real per capita consumption, namely an increase in the nominal household expenditure higher than the inflation rate in the same period. Life is worthy of using the purchasing power parity indicator of a number of basic needs. This can be seen from the average amount of expenditure per capita as an income approach that represents the achievement of development for decent living.
3. RESEARCH METHOD

Data will be analyzed using panel data, namely a combination of time series data from 2005-2015 and cross section 4 Districts in the Former Residency of Besuki, East Java, Indonesia (Jember, Bondowoso, Situbondo, Banyuwangi). Data were analyzed by regression and analysis tools using Eview help. This study uses descriptive analysis and inferential analysis, where both methods of analysis complement each other to obtain results as expected at the research objectives. Processing raw data using the Evies 9 data processing program package. The General Description of the Research Area, begins that in the pre-colonial era, the Besuki Residency exported foodstuffs outside Java (Nawiyanto 2012). The integration of the Besuki Residency into Dutch power and the creation of political stability opened opportunities for the expansion of economic exploitation, especially the opening of colonial plantations from state-run (Cultuurstelsel) to private parties since 1870. This process continued to accelerate and elevate the position of the Besuki Residency. Until now, the Ex-Besuki Residency was known as the leading region in the agricultural sector in Indonesia. Residency is an administrative division in a province in the Dutch East Indies (Indonesia) until the 1950s. A residency (regentschappen) consists of several districts (afdeeling). The residency word comes from Dutch Residentie, headed by a resident, who is from Dutch Resident. Above the resident was the governor general, who ruled in the name of the King and Queen of the Netherlands. Not in all provinces in Indonesia has there been residency. Only on the islands of Java, Sumatra, Kalimantan, Bali, Lombok and Sulawesi only. Usually this happens in areas with a large population. With the crisis of the 1950s, the term residency was not used anymore and the term district instead. The residency came to be known as the "Assistant Governor" (this term is now no longer used). However, the ex-residency designation is still used informally. During the Dutch colonial period the Besuki Residency included four districts, namely: Jember, Bondowoso, Panarukan (Situbondo) and Banyuwangi (Tennekes, 1963: 358). The economic sector base in the former Besuki Residency is the agricultural sector. This is indicated by the large number of people who make a living as farmers and farm laborers, as well as the extent of agricultural land. The agricultural sector has contributed the most to the Gross Regional Domestic Product. In addition, existing farmers tend to be in the age group 35 years and above. This means that existing farmers tend to be in the older-adult group. There is a tendency for the loss of agricultural culture in the young age group. This is due to the view that working in industry, trade and services is more promising than farming, so that the younger generation is more interested in working outside the area (big cities).

4. DATA ANALYSIS

Testing of classical assumptions aims to find out whether the regression model is good or not if it is used to conduct an assessment. A model is said to be good if it is BLUE (Best Linear Unbiased Estimator) that is fulfilling classical assumptions or avoiding multicollinearity problems, autocorrelation and heteroscedasticity. To get the results of fulfilling these properties a classical assumption is tested which includes normality test, multicollinearity test, autocorrelation test and heteroscedasticity test.

4.1. Effect of minimum wages on employment in the ex-Besuki residency.

4.1.1. Normality test

Normality testing is carried out with the intention to see whether or not normal data is analyzed. Normality can be detected using the Jarque-Bera test (JB test). The JB test is a normality test based on the curving coefficient (kurtosis) and the skewness coefficient. In JB normality test can be seen from the amount of JB probability value, if the JB probability value is> 0.05 then the data is normally distributed, conversely if the probability value is <0.05 then the data is not normally distributed.

The normality test in the classic assumption of the OLS approach is that the residual (data) is formed by a normally distributed linear regression model. Based on the results of the analysis above, the probability of JB (Jarque-Bera) count is greater than 0.05 so it can be concluded that the residual is normally distributed (0.1208> 0.05), meaning that the classical assumptions about normality have been fulfilled. So it can be concluded that the assumptions of normal distribution in the model are met.

4.1.2. Multicollinearity Test

This multicollinearity test aims to test whether in the regression method performed there is a correlation between independent variables. To find out whether there is multicollinearity, it can be seen from the correlation value between the two independent variables. If the correlation value is less than 0.8, the independent variable does not have multicollinearity problems, and vice versa. This study has only one variable, so Multicollinearity is not possible.

a. Autocorrelation Test

Autocorrelation is the relationship between the residuals of one observation and the other residual observations. To detect autocorrelation problems, researchers used the Breusch-Godfrey (BG) Test or Lagrange Multiplier (LM) Test. Autocorrelation test aims to determine whether in a linear regression model there is a correlation between bullies in period t with errors in period t-1 (previously) (Ghozali, 2008). The analysis tool used is the Durbin-Watson Statistics test. To find out whether or not autocorrelation occurs by comparing the values of Durbin-Watson calculated statistics in the
regression calculation with the Durbin-Watson table statistics in Table 1. below.

Table 1. Test results Breusch Godfrey

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>R-squared</td>
<td>0.787381</td>
</tr>
<tr>
<td>Mean dependent var</td>
<td>-701E-11</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.771434</td>
</tr>
<tr>
<td>S.D dependent var</td>
<td>32126.7</td>
</tr>
<tr>
<td>S.E of regression</td>
<td>15359.1</td>
</tr>
<tr>
<td>Akaike info criterion</td>
<td>26.80848</td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>9.44E+11</td>
</tr>
<tr>
<td>Schwarz criterion</td>
<td>26.97066</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-585.766</td>
</tr>
<tr>
<td>Hamman-Quinn criterion</td>
<td>26.86663</td>
</tr>
<tr>
<td>F-statistic</td>
<td>49.36758</td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>1.652928</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.00000</td>
</tr>
</tbody>
</table>

Source: data processed

Based on the test results, the DW value is 1.652928. If the DW value is located between the upper bound (du) and (4 - du) then the autocorrelation coefficient = 0, meaning there is no autocorrelation.

Heterocedasticity Test

Heterocedasticity test is carried out to test whether in the regression model variance of the residual inequality occurs one observation with another observation. To detect the presence of heterocedastic is to regress the model with log residual squared as the dependent variable. Decision making is done if the probability value is <0.05 (significant level or α = 0.05) then heteroscedasticity occurs, if the probability value is> 0.05 then homocedasticity occurs.

Table 2. Heterocedasticity Test Results

<p>| | |</p>
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>0.043934</td>
</tr>
<tr>
<td>Prob. F(1.42)</td>
<td>0.835</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>0.045978</td>
</tr>
<tr>
<td>Prob. Chi-Square(1)</td>
<td>0.630</td>
</tr>
<tr>
<td>Scaled explained SS</td>
<td>0.014960</td>
</tr>
<tr>
<td>Prob. Chi-Square(1)</td>
<td>0.902</td>
</tr>
</tbody>
</table>

Source: data processed

The decision whether or not heteroscedasticity occurs in the linear regression model is to look at the F-statistic Probability Value. Based on the results of the Probability analysis (F-statistic) of 0.8350 which is greater than alpha 0.05 (5%), then Ho is accepted which means there is no heteroscedasticity.

4.2. Analysis and Test of the Effect of Minimum Wages on Labor Absorption

To carry out this analysis and test of influence, after ensuring that the data is normally distributed and meets the criteria for homogeneity, the next steps are:

4.2.1. Hausman Test

Hausman Test, is used to choose whether the model used is the Random effect model or fixed effect model. Based on the results of the tests conducted, in attachment 3, the Prob result is 0.0000, which means that the cross-section probability value is less than the significance level α = 0.05. Based on these results, the panel data regression that is more appropriate is the fixed effect model.

4.2.2. Simple Regression Test

Based on the results of the regression analysis in appendix 1, the following results are obtained:

Table 3: Results of Simple Regression Analysis

<p>| | | | | |</p>
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Variabel</td>
<td>Coef</td>
<td>Std. E</td>
<td>t-statistic</td>
<td>Prob.</td>
</tr>
<tr>
<td>C</td>
<td>611154.6</td>
<td>12556.38</td>
<td>48.67205</td>
<td>0.0000</td>
</tr>
<tr>
<td>X</td>
<td>0.062166</td>
<td>0.012742</td>
<td>4.878775</td>
<td>0.0000</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.989315</td>
<td>0.039405</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: data processed

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

\[
\hat{Y}_1 = 611154.6 + 0.062166 X + e \\
(48.67205) (4.878775)
\]

(note: sign * = significant α 0.10; ** = significant α 0.05; *** = significant α 0.01)

Based on Table 3, and the regression equation can be explained as follows:

(i) The constant of 611154.6 states that if there is no minimum wage, the absorption of labor is 611154.6 unit of people. With t statistics of 48.67205 and probability of 0.0000, this constant value is significant at the alpha level (α) of 0.01 confidence level of 99%.

(ii) Regression coefficient of X is 0.062166, this means that if there is a minimum wage increase of one rupiah unit, it will increase employment by 0.062166 unit of person. If there is a decrease in minimum wages of one rupiah unit, then there is a decrease in employment of 0.062166 unit of people. The value of t-Statistic is 4.878775 and Prob 0.0000, significant at alpha level (α) 0.01 confidence level 99%. That is, the minimum wage has a positive and significant effect on employment in the former Residency of Besuki.

(iii) The value of R-squared is 0.989315 or 98.9% (in Table 3), indicating that there is a close relationship between minimum wages to employment. The percentage of the contribution of the independent variable to the dependent variable (employment absorption) is 98.9%. It can be explained that variations in the independent variables used in the model (minimum wage) are able to explain 98.9% of the variation in the dependent variable (employment). While the remaining 1.1% is influenced or explained by other variables not included in this research model.
4.3. Effect of minimum wages on economic growth at the Ex Besuki Residency

4.3.1. Normality test
Normality testing is carried out with the intention to see whether or not normal data is analyzed. Normality can be detected using the Jarque-Berra test (JB test). The JB test is a normality test based on the curving coefficient (kurtosis) and the skewness coefficient. In JB normality test can be seen from the amount of JB probability value, if the JB probability value is > 0.05 then the data is normally distributed, conversely if the probability value is <0.05 then the data is not normally distributed.

Source: data processed

Figure 2 Normality Test Results

The normality test in the classic assumption of the OLS approach is that the residual (data) is formed by a normally distributed linear regression model. Based on the results of the analysis above, the probability of JB (Jarque-Bera) count is greater than 0.05 so it can be concluded that the residual is normally distributed (0.368163 > 0.05), meaning that the classical assumptions about normality have been fulfilled. So it can be concluded that the assumptions of normal distribution in the model are met.

4.3.2. Multicollinearity Test
This multicollinearity test aims to test whether in the regression method performed there is a correlation between independent variables. To find out whether there is multicollinearity, it can be seen from the correlation value between the two independent variables. If the correlation value is less than 0.8, the independent variable does not have multicollinearity problems, and vice versa. In this research there is only one independent variable, so it wont be possible for multicollinearity to occur.

4.3.3. Autocorrelation Test
Autocorrelation is the relationship between the residuals of one observation and the other residual observations. To detect autocorrelation problems, researchers used the Breusch-Godfrey (BG) Test or Lagrange Multiplier (LM) Test. Autocorrelation test aims to determine whether in a linear regression model there is a correlation between bullies in period t with errors in period t-1 (previously) (Ghozali, 2008).

The analysis tool used is the Durbin-Watson Statistics test. To find out whether or not autocorrelation occurs by comparing the values of the Durbin-Watson count statistics in the regression calculation with the Durbin-Watson table statistics in Table 4. below. Based on the test results, the DW value is 1.652928. If the DW value is located between the upper bound (du) and (4 - du) then the autocorrelation coefficient = 0, meaning there is no autocorrelation.

Table 4. Breusch Godfrey Test Results

Source: data processed

The Durbin-Watson value (dw) of 2.059622 is between the values of dl and du x 4 or dl <dw <du x 4 (dl = 1.2769 and du x 4 = 1.7777 x 4 = 7.1108), so that based on the provisions stated there is no autocorrelation.

4.3.4. Heteroscedasticity test
Heteroscedasticity test is carried out to test whether in the regression model variance of the residual inequity occurs one observation with another observation. To detect the presence of heteroscedastic is to regress the model with log residual squared as the dependent variable.

The decision whether or not heteroscedasticity occurs in the linear regression model is to look at the F-statistic Probability Value. Based on the results of the Probability analysis (F-statistic) of 0.1161 which is greater than alpha 0.05 (5%), then Ho is accepted which means there is no heteroscedasticity.

Table 5. Heterocedasticity Test Results

Source: data processed

4.3.5. Hausman Test
Hausman Test, is used to choose whether the model used is the Random effect model or fixed effect model. Based on the results of the tests carried out, in appendix 4, the Prob results are 0.0498, which means that the value of the cross-section probability is smaller than the significance level α = 0.05 Based on these results, the panel data regression that is more appropriate is Fixed effect model.
4.3.6. Simple Regression Test

Based on the results of the regression analysis in appendix 3, the following results are obtained:

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Koeffisien</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>5.864095</td>
<td>0.247366</td>
<td>23.70616</td>
<td>0.0000</td>
</tr>
<tr>
<td>X</td>
<td>-1.96E-07</td>
<td>2.51E-07</td>
<td>-0.781812</td>
<td>0.04382</td>
</tr>
</tbody>
</table>

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

\[ \hat{Y} = 5.864095 - 1.96E-07 X + e \]

(note: sign * = significant α 0.10; ** = significant α 0.05; *** = significant α 0.01)

(i) Based on Table 6 and the regression equation explained as follows: Constants of 5.864095 state that if there is no minimum wage, then the value of economic growth is 5.864095 one unit of people. With t statistics of 23.70616 and probability of 0.0000, the value of this constellation is significant at the alpha level (α) of 0.01 confidence level of 99%.

(ii) Regression coefficient of X is worth -1.96E-07, this means that if there is an increase in the minimum wage of one unit of rupiah it will reduce economic growth by 1.96E-07 one unit of people. If there is a decrease in the minimum wage of one unit of rupiah, then there is an increase in economic growth of 1.96E-07 one unit.

The t-Statistic value is -0.781812 and Prob 0.04382, significant. That is, the minimum wage has a significant effect on economic growth in the former Residency of Besuki.

(iii) The R-squared value is 0.089986 or 8.9% (in Table 6), indicating that the independent variable contribution of the dependent variable (economic growth) is 8.9%. It can be explained that the variation of the independent variables used in the model (minimum wage) is able to explain 8.9% of the variation in the dependent variable (employment). While the remaining 91.1% is influenced or explained by other variables not included in this research model.

4.4. Effect of minimum wages on welfare at the Ex-Residency. Besuki

4.4.1. Normality test

Normality testing is carried out with the intention to see whether or not normal data is analyzed. Normality can be detected using the Jarque-Berra test (JB test). The JB test is a normality test based on the curving coefficient (kurtosis) and the skewness coefficient. In JB normality test can be seen from the amount of JB probability value, if the JB probability value is > 0.05 then the data is normally distributed, conversely if the probability value is < 0.05 then the data is not normally distributed.

4.4.2. Multicollinearity Test

This multicollinearity test aims to test whether in the regression method performed there is a correlation between independent variables. To find out whether there is multicollinearity, it can be seen from the correlation value between the two independent variables. If the correlation value is less than 0.8, the independent variable does not have multicollinearity problems, and vice versa. This study has only one variable, so Multicollinearity is not possible.

4.4.3. Autocorrelation Test

Autocorrelation is the relationship between the residuals of one observation and the other residual observations. To detect autocorrelation problems, researchers used the Breusch-Godfrey (BG) Test or Lagrange Multiplier (LM) Test. Autocorrelation test aims to determine whether in a linear regression model there is a correlation between bullies in period t with errors in period t-1 (previously) (Ghozali, 2008). The analysis tool used is the Durbin-Watson Statistics test. To find out whether or not autocorrelation occurs by comparing the Durbin-Watson calculated statistical values in the regression calculation with the Durbin-Watson table statistics in Table 7, below. Based on the test results obtained the DW value of 1.65292. If the DW value is located between the upper bound (du) and (4 - du) then the autocorrelation coefficient = 0, meaning there is no autocorrelation.
The Durbin-Watson value (dw) is 1.981801 which is between the values of dl and du x 4 or dl < dw < du x 4 (dl = 1.2769 and du x 4 = 1.7777 x 4 = 7.1108), so based on the provisions stated there is no autocorrelation.

### 4.4.4. Heteroscedasticity test
Heteroscedasticity test is carried out to test whether in the regression model variance of the residual inequality occurs one observation with another observation. To detect the presence of heteroscedastic is to regress the model with log residual squared as the dependent variable. Decision making is done if the probability value is <0.05 (significant level or α = 0.05) then heteroscedasticity occurs, if the probability value is> 0.05 then homocedasticity occurs.

#### Table 8 Heteroscedasticity Test Results

<table>
<thead>
<tr>
<th>F-statistic</th>
<th>Prob. (F(1,42))</th>
<th>0.3172</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obs*R-squared</td>
<td>Prob. Chi-Square(1)</td>
<td>0.3060</td>
</tr>
<tr>
<td>Scaled explained SS</td>
<td>Prob. Chi-Square(1)</td>
<td>0.3611</td>
</tr>
</tbody>
</table>

Source: data processed

The decision whether or not heteroscedasticity occurs in the linear regression model is to look at the F-statistic Probability Value. Based on the results of the Probability analysis (F-statistic) of 0.3172 which is greater than alpha 0.05 (5%), then Ho is accepted which means there is no heteroscedasticity. To carry out this analysis and test of influence, after ensuring that the data is normally distributed and meets the criteria for homogeneity, the next step is:

#### a. Hausman Test
Hausman Test, is used to choose whether the model used is Random effect model or Fixed effect model. Based on the results of the tests conducted, in Appendix 3, the results of the Prob are 0.3645 which means that the cross-section probability value is greater than the significance level α = 0.05. Based on these results, the panel data regression that is more appropriate is the Random effect model.

#### b. Simple Regression Test
Based on the results of the regression analysis in Annex 1, the following results are obtained:

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

\[ \hat{Y}_3 = 62.54710 + 2.41 \times 10^{-6} X + e \]

(124,4382) *** (4,724751) ***

(note: sign * = significant α 0.10; ** = significant α 0.05; *** = significant α 0.01) Based on table 9 and the regression equation can be explained as follows:

(i) The constant of 62.54710 states that if there is no minimum wage, the welfare value of the community is 62.54710 one unit. With t statistics of 124.4382 and probability of 0.0000, the value of this constellation is significant at the alpha level (α) of 0.01 confidence level of 99%.

(ii) The regression coefficient of X is 2.41E-06, which means that if there is an increase in the minimum wage of one rupiah unit, it will increase the community welfare by 2.41E-06 in one unit of person. If there is a decrease in the minimum wage of one unit of rupiah, then there is a decrease in community welfare of 2.41E-06 per unit. The t-Statistic value is 4.724751 and Prob 0.0000, significant at the alpha level (α) 0.01 confidence level of 99%.

(iii) That is, the minimum wage has a positive and significant effect on the welfare of the community in the ex-Residency of Besuki.

#### R-squared value of 0.720800 or 72.0% (in Table 9), indicating that there is a relationship between minimum wages to employment. The percentage of the contribution of the independent variable of the minimum wage to the dependent variable (community welfare) is 72.0%. This means that the variation of the independent variables used in the model (minimum wage) is able to explain 72.0% of the variation of the dependent variable. While the remaining 28.0% is influenced or explained by other variables not included in this research model.

### 5. CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Conclusions

5.1.1. The results of the analysis conclude that the district minimum wage has a positive and significant effect on employment in the former Residency of Besuki. This finding is consistent with the theoretical view of Lewis
(1954), regarding the model of “Economic Development with Unlimited labor supply”. If the industry gets profit, then he will always save and invest, especially human capital. Fei-Ranis (1964) states that wages do not adjust on the basis of the marginal product of labor, but according to subsistence requirements otherwise known as minimum wages. This finding rejects the theory of Stigler which states that if there is an increase in minimum wages it will reduce employment.

5.1.2. The district minimum wage has an effect on the welfare of the community in the ex-Residency of Besuki. The findings of this study are in accordance with the theory suggested by Sen (1990), that human capital, if humans are able to optimize its potential, will also contribute to the maximum welfare of the common good. The minimum wage is the ability of the community to buy a number of basic needs. This can be seen from the average amount of expenditure per capita as an income approach that represents the achievement of development for decent living. The level of welfare is said to increase if there is an increase in real per capita consumption, namely an increase in the nominal household expenditure higher than the inflation rate in the same period. Life is worthy of using the purchasing power parity indicator of a number of basic needs. Community welfare can be achieved by empowering the community to support it.

5.2. Recommendations

5.2.1. Minimum Wages only apply to workers who have a work period of less than 1 (one) year. This should be for workers with a work period of more than 1 (one) year must be larger and rise in proportion proportionally. Adapted to the prevailing wage structure and scale in general. The amount of wages is very important because the workforce wants a decent income so that they are able to meet their needs as well as their families.

5.2.2. The definition of work (BPS, 2015) needs to be corrected, because its size is too shallow which is at least 1 hour (uninterrupted) in the week before the survey, not or is looking for income. As a result, the number of people working will look bigger. Termination of employment (Termination of Employment) at the time of enumeration begins, the person is categorized as working. This must be corrected because it shows an increase in demand or high employment. Moreover, layoffs are carried out when there is a demand for a minimum wage increase, according to the theory of Stigler (1946) and Friedman (1966).

References