

THE EFFECT OF MINIMUM WAGES AND MSMEs ON ECONOMIC GROWTH IN TULUNGAGUNG

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Abstrak

Kesejahteraan suatu wilayah dapat dilihat dari pertumbuhan ekonomi. Pendapatan seseorang dapat digunakan untuk mengukur kesejahteraan. UMKM dan upah minimum adalah dua sumber pendapatan. Tujuan penelitian ini adalah untuk mengetahui pengaruh UMK dan jumlah UMKM terhadap pertumbuhan ekonomi Kabupaten Tulungagung. Penelitian ini menggunakan data sekunder dengan teknik pengumpulan data menggunakan metode studi literatur. Data yang digunakan mencakup tahun 2011 hingga 2021. Regresi linier berganda merupakan teknik analisis yang digunakan untuk mengetahui pengaruh UMK dan jumlah UMKM terhadap pertumbuhan ekonomi Tulungagung. Menurut hasil penelitian, jumlah UMKM berdampak pada pertumbuhan ekonomi Tulungagung sedangkan UMK tidak berpengaruh. Sementara itu, upah minimum dan jumlah UMKM secara simultan berpengaruh pada pertumbuhan ekonomi Tulungagung.

Kata Kunci : *Pertumbuhan Ekonomi, UMK, UMKM*

Abstract

The stability of the region can be shown in the economic growth. One's income can be used to examine welfare. MSMEs and the minimum wage are two sources of personal income. The goal of this study is to ascertain how Tulungagung's economic growth is impacted by the minimum wage and the number of umkm. Secondary data were used in this study, and literature studies were conducted to get them. The used data spans the years 2011 through 2021. Multiple linear regression is the analytical technique utilized to ascertain the impact of the minimum wage and the proportion of MSMEs on Tulngagung's economic growth. According to the study's findings, the number of MSMEs has an impact on Tulungagung's economic growth whereas the minimum wage has no bearing on it. The minimum wage and the proportion of MSMEs, meanwhile, have an impact on Tulungagung's economic expansion.

Keywords: *Economic growth, Minimum Wages, MSMEs*

INTRODUCTION

Analyzing a region's economic growth is one of the fundamental metrics for judging the success of its economic development (Restiatun 2020). It is possible to evaluate the effectiveness of economic development in a region by economic growth.

One of the regencies in the province of East Java is Tulungagung. Tulungagung Regency's economic growth is below average when measured against that of other districts and cities in East Java. Tulungagung Regency has exceptional potential in a number of economic areas, including the mining and agriculture sectors, for example. Due to numerous factors, Tulungagung Regency's economic development varies from 2012 to 2021. Economic growth shows how much economic activity can occasionally enhance income or social wellbeing (Virginanda 2015). This indicates that the wellbeing of the residents of Tulungagung Regency has not always been consistent.

Because salaries are the primary source of money, it is possible to gauge the welfare of a community by looking at wages (Virginanda 2015). Each worker has unique abilities and background in terms of their education, work history, age, and other factors. In order to protect the welfare of workers, a restriction in the payment of wages is required, namely through a minimum wage legislation. Additionally, this will be extremely beneficial in preventing the exploitation of minimum wage workers. The minimum wage promotes worker justice within the context of meeting basic requirements like food and clothes. Compared to other districts in East Java, Tulungagung's district minimum wage (UMK) is lower than the national average.

Not everyone receives revenue from wages; some people also make money through their own businesses. MSMEs are thought to play a significant impact in raising a person's per capita income (Halim 2020). Business actors receive compensation for the items or services they sell by charging customers a price. By giving job possibilities to people who might not otherwise have the chance to work in businesses or government organizations, the MSME sector can promote economic growth in a region (Singh and Paliwal 2017). Since MSMEs are expanding so quickly within Tulungagung Regency, many residents there have decided to work for themselves rather than for businesses or the government, particularly during the 2021 pandemic.

The growth of Tulungagung UMK is not inversely related to the growth of MSMEs. For instance, during the pandemic, the number of MSMEs increased by just about 3% from 2020 to 2021 whereas the number of MSMEs increased by an astounding 117%. With an increase in the pace of economic growth, UMK has an impact on growth, according to (Virginanda 2015). According to Windayana & Darsana (2020), the UMK had a detrimental impact on economic expansion. MSMEs, according to Lamazi (2020), have a substantial impact on a region's economic development. Halim (2020) on the other hand, contends that there was no discernible correlation between the rise in MSMEs and economic growth.

Given the issues raised above, it may be concluded that there has been a research gap on this subject, and additional study is required to address it. In light

of this, the study "The Effect of Minimum Wage and MSMEs on Economic Growth in Tulungagung Regency" was conducted.

RESEARCH METHODS

This study falls under the category of quantitative research. Realistic quantitative research sees human behavior as measurable and objective (Nurdin & Hartati, 2019). UMK (X1) and the number of SMEs were the two independent variables in this study (X2). While the economic development of Tulungagung Regency serves as the study's dependent variable. The UMK variable uses the rupiah measurement scale and the amount of the Tulungagung Regency's annual minimum wage. The total size of MSMEs annually in Tulungagung Regency is used as the variable number of MSMEs using a unit measurement scale. The economic growth variable employs a percent measurement scale and a percentage measure of economic growth in Tulungagung Regency.

In this study, secondary data were employed, and data were collected through methods of literature study through relevant literature. The data used spans the years 2012 through 2021. An econometric model, specifically the Multiple Linear Regression model with estimate using the Ordinary Least Squares (OLS) estimation method, is utilized to examine the data. Using the estimate technique of Ordinary Least Squares (OLS).

Classic Assumption Test

To ensure that the estimated parameter values produced are comparable to the original values, the classical assumption test must be conducted. The normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test make up the traditional assumption test. The following is the justification:

a. Normality test

By examining the Jarque-Bera (JB) probability value, one can perform the normalcy test. If the Jarque-Bera (JB) probability value is less than 0.05, the data is said to be normally distributed with an alpha value of 5% (0.05).

b. Multicollinearity test

The Klein approach was applied in this research to identify multicollinearity in the model. According to Wahyudi (2016), the Klein technique is applied by comparing the main regression value with the regression value from the auxiliary regression equation or pseudo regression between the independent variables. According to Klein's principles, it can be inferred that there is no significant multicollinearity between the model variables if the findings demonstrate that the R² value of the model is lower than the R² value of the main model.

c. Autocorrelation test

The Breusch-Godfrey test is one method of autocorrelation. When the Prob. Chi-Square 0.05 (alpha) in the Breusch-Godfrey test, there is a

sign of autocorrelation; however, if the Prob. Chi-Square > 0.05 , there is no evidence of autocorrelation in the research model.

d. Heteroscedasticity test

The White Heteroscedasticity Test is one technique for identifying heteroscedasticity signs. The White Heteroscedasticity Test makes the premise that when the Prob. Chi-Square is less than 0.05, the research model exhibits signs of heteroscedasticity. In the study model, there are no signs of heteroscedasticity if the Prob. Chi-Square is greater than 0.05.

Hypothesis Test

a. T Test

The T test was used to determine the independent factors' partial effects on the dependent variable (Stawati 2020). The following are the requirements for the T test:

- 1) H_0 is approved while H_1 is rejected if the p value is greater than 0.05. It can be said that the independent factors have no influence on the dependent variable.
- 2) H_0 is disregarded and H_1 is allowed if the p value is less than 0.05. It is obvious that the independent factors have an impact on the dependent variable.

b. F Test

To determine the concurrent impact of the independent factors on the dependent variable, the F statistical test was used. The following conditions apply to this test:

- 1) H_0 is approved while H_1 is rejected if the p value is greater than 0.05. It is evident that none of the independent factors have an impact on the dependent variable at the same time.
- 2) H_0 is disregarded and H_1 is allowed if the p value is less than 0.05. It is obvious that the independent factors have an impact on the dependent variable at the same time.

c. Coefficient of Determination Test (R^2)

The correlation coefficient squared is used to calculate the coefficient of determination (R^2), which is then multiplied by 100% (Stawati 2020). The corrected R-Squared value is used as the coefficient of determination in this investigation. This percentage demonstrates the extent of the independent variable's influence on the dependent variable; other factors decide the remaining portion. The prediction model is better the higher the value. The independent variable can almost completely explain the dependent variable if the coefficient of determination is close to 1, and vice versa.

RESULTS AND DISCUSSION

Results

Classic Assumption Test

The processed data satisfies the conditions of the traditional assumption test. The normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test all showed positive results for the data. The research data are normally distributed, and since the JB (Jarque-Bera) value is $0.820011 > 0.05$, it is known from the test findings above that the classical test in the regression model is sufficient to support the assumption of normality. R^2 values are obtained for each model based on the estimation outcomes from the auxiliary regression equation. As can be observed, model 1's R^2 value is lower than the main model's R^2 value, which is $0.631108 < 0.883988$, indicating a lack of significant multicollinearity between model variables according to Klein's rule. There is no multicollinearity between the variables because the R^2 value of model 2 is also lower than the value of the main model, namely $0.6311 < 0.883988$. It is clear from the preceding autocorrelation test findings that Prob. Chi-square is $1.0000 > 0.05$, indicating that the research model does not exhibit autocorrelation. The Prob. Chi-square is $0.296 > 0.05$, which indicates that there are no signs of heteroscedasticity in the research model, according to the findings of the heteroscedasticity test using the White technique.

Hypothesis test

1. T test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.489145	1.200171	5.406851	0.0017
LOGUMK	-0.046070	0.136892	-0.336540	0.7479
LOGUMKM	-0.384227	0.105295	-3.649060	0.0107

Picture 1. The Result of T Test
Source: E-views, 2022

The UMK variable's p value is $0.7479 > 0.05$, which means that H_0 is accepted and H_1 is refused. It can be said that the UMK variable has no bearing on the Economic Growth variable. The MSMEs has a p value of $0.0107 < 0.05$, which means that H_0 is rejected and H_1 is approved. It is obvious that the quantity of MSMEs variables has an impact on the economic growth variable.

2. F test

R-squared	0.883988	Mean dependent var	1.643433
Adjusted R-squared	0.845317	S.D. dependent var	0.168030
S.E. of regression	0.066086	Akaike info criterion	-2.334524

Sum squared resid	0.026204	Schwarz criterion	-2.268782
Log likelihood	13.50536	Hannan-Quinn criter.	-2.476394
F-statistic	22.85935	Durbin-Watson stat	0.695590
Prob(F-statistic)	0.001561		

Table 1. The Result of F Test

Source: *E-views*, 2022

As can be seen from the test results above, H_0 is rejected and H_1 is accepted because the p-value is $0.001561 < 0.05$. This indicates that UMK and the MSMEs have an impact on the economic growth of Tulungagung Regency at the same time.

3. Coefficient of Determination Test (R^2)

R-squared	0.883988	Mean dependent var	1.643433
Adjusted R-squared	0.845317	S.D. dependent var	0.168030
S.E. of regression	0.066086	Akaike info criterion	2.334524
Sum squared resid	0.026204	Schwarz criterion	2.268782
Log likelihood	13.50536	Hannan-Quinn criter.	2.476394
F-statistic	22.85935	Durbin-Watson stat	0.695590
Prob(F-statistic)	0.001561		

Table 2. The Result of Coefficient of Determination Test

Source: *E-views*, 2022

According to the aforementioned findings, the dependent variable Economic Growth (Y) of 84.5317% may be described by the variety of the independent variables MSE (X1) and the number of MSMEs (X2), according to the Adjusted R-squared (R^2) result of 0.845317. Therefore, the regression model can offer the data required to forecast the dependent variable's fluctuation. While other

factors other than the chosen variable are used to characterize the remaining 15.4683%.

Discussion

The t test indicates that the UMK has no impact on Tulungagung Regency's economic growth based on the results of the experiments that have been run because the p value is 0.7479. The UMK variable's p value is 5%, which indicates that UMK has a limited impact on Tulungagung Regency's economic expansion.

Workers and wages are strongly intertwined, particularly in the employee, labor, and employee sector. As a result, the number of employment in the employee, labor, and staff sector has an impact on the overall distribution of the UMK to the residents of Tulungagung Regency. The employment rate in the employee/labor sector has a sporadic declining tendency in 2012–2015, according to statistics from BPS Tulungagung. This indicates that in comparison to other industries, Tulungagung Regency has a lower number of staff members. Tulungagung Regency still has a low literacy rate, and the employee/labor sector is classified in a specific way, leading to a low level of absorption.

In addition, it is permissible to reduce employee pay under Article 58, Paragraph 1, of PP 36/2021. This provision is governed by article 65 PP 36/2021 and limits the deduction to no more than 50% of the stated earnings. If this occurs, employees/laborers/employees will receive less UMK.

The Tulungagung Regency's agricultural potential area is quite substantial, accounting for about 42.93 percent of the region's total land area, according to the geography of the area (Badan Perencanaan dan Pembangunan Daerah 2013). A large portion of the Tulungagung population is employed in agriculture, specifically as farmers or farm laborers.

There is no impact of the UMK in Tulungagung Regency on economic expansion. This contradicts the findings of a study carried out by Castro et al., (2014). He contends that the wage rate can increase internal consumption and the home market because both are thought to be crucial for establishing sustainable economic growth. The distribution of UMK is still insufficient in Tulungagung Regency because there aren't many people who depend on wages due to a lack of employment in the employee, labor, and employee sector. Labor is not significantly impacted by UMK (Umar 2013). This may occur if the UMK does not serve as a motivator for employees to work or if workers are paid more than the UMK that has been established.

The p value for the variable MSMEs is less than the significance level employed in this study, which is 5% ($= 0.05$), indicating that the number of MSMEs partially affects Tulungagung Regency's economic growth. According to the regression results, Tulungagung Regency's economic growth will slow down as the number of MSMEs rises. The rate of economic growth will drop by 0.384227 for every 1% increase in MSMEs. This is due to the pandemic's effect on the income

of vulnerable groups, such as MSMEs, which has been a fall in income while an increase in operating costs. This could interfere with MSMEs' ability to operate, leading to cash issues (Sulaeman 2022). The sustainability of MSMEs may also be impacted by a decline in consumer purchasing power.

The rise of MSMEs during a pandemic may have a detrimental effect on the economy. The total output will rise as MSMEs expand, but purchasing power will fall. There will be an imbalance between supply and demand at this time. Additionally, there was a drop in export performance. According to statistics from BPS Tulungagung Regency, the export volume of MSMEs in Tulungagung Regency declined in 2014–2015, from 854,735 tons in 2014 to 451,258 tons in 2015. This indicates a decline in the export performance of MSMEs in Tulungagung Regency. Following a pandemic in 2020, many businesses had to lay off personnel (Ngadi, Meliana, and Purba 2020). The abundance of accessible laborers may limit the amount of labor that MSMEs themselves absorb (Paramita Hapsari, Hakim, and Soeaidy 2014). Of the 829,231 people living in Tulungagung Regency who are 15 years of age or older and of working age in 2020, 27,950 of them are openly unemployed. Because the local government has not consistently recognized many new MSMEs' income developments, they have been unable to contribute to local economic growth (Halim 2020). Additionally, because of the lack of physical stores like outlets due to the pandemic, many MSMEs have switched to internet operations, making the task of gathering government data much more challenging.

According to Schumpeter's idea, entrepreneurship can stimulate economic growth through its inventions, which will have an impact on the introduction and diffusion of technology and boost business profitability (Cahyono 2020). This notion does not applicable to the study at hand because, in essence, money is required for the development and spread of technology. According to Andini's (2018) research, capital has a favorable impact on both production and technology. Given that the income of MSMEs decreased during a pandemic, it was directly correlated with the amount of incoming capital and eventually had an impact on production and the development of new technologies.

The UMK variable and the quantity of MSMEs both have an impact on Tulungagung Regency's economic growth. This is consistent with the theory that the number of MSMEs and the UMK variable both have an impact on the economic growth of Tulungagung Regency. The productivity of MSME employees may increase as a result of the use of the UMK policy. Workers can satisfy their everyday necessities with this salary (Virginanda, 2015). The dietary requirements of workers will be satisfied after their demands are satisfied. The workforce's productivity may increase as a result. The production produced will increase as a result of a more productive workforce, which will contribute to faster economic growth.

CONCLUSION

Following are a few inferences that can be derived from the research findings described:

- a. The economic growth of Tulungagung Regency is unaffected by the UMK variable (X1)

This is evident from the UMK variable's T-test significance value of $0.7479 > 0.05$, which indicates that the X1 variable has no impact on the Y variable. Therefore, the UMK variable has no impact on the economic growth of Tulungagung Regency.

- b. The fluctuating presence of MSMEs (X2) has an impact on Tulungagung Regency's economic expansion

This is demonstrated by the T-test variable Number of MSMEs' significance value of $0.0107 > 0.05$, which indicates that variable X2 has an impact on variable Y. The number of MSMEs in Tulungagung Regency, however, has a negative impact on economic growth, according to the results of the regression analysis. Therefore, the variable number of MSMEs has a detrimental impact on Tulungagung Regency's economic growth.

- c. Both the number of MSMEs (X2) and the UMK variable (X1) have an impact on Tulungagung Regency's economic expansion

This is evident from the significance value of F of $0.001561 < 0.05$, which indicates that the number of MSMEs and the UMK had an impact on Tulungagung Regency's economic growth at the same time.

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