

Factors Affecting the Determination of Minimum Wages for the People of Binjai City

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ABSTRACT

This research discusses the City Minimum Wage which is the minimum standard for employers in determining employee salaries in Binjai. This study aims to determine the significant effect of the Gross Regional Domestic Product (X1) and Labor Force Participation Rate (X2) variables on the City Minimum Wage (Y) in East Binjai District. The type of research used is associative research, which aims to see the relationship between the independent variable and the dependent variable. The data used is quantitative data, and the data source is secondary data with data collection techniques through literature studies and documentation. The analytical tools used include the Classical Assumption Test, Multiple Linear Regression Test, and Hypothesis Test. The results showed that there was no significant influence between Gross Regional Domestic Product (X1) and Labor Force Participation Rate (X2) on the City Minimum Wage (Y) in Binjai, East Binjai District.

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1. Introduction

Based on the Regulation of the Minister of Manpower (PERMENAKER) No. 01 of 1999, the minimum wage is the lowest monthly wage consisting of basic wages including fixed benefits, applicable to workers who have less than 1 year of service. Determination of the minimum wage can be done at the Municipality/City level, where the governor determines the amount of the Municipality/City Minimum Wage (UMK), based on proposals from the Municipality/City Wage Council (DPK) by considering the welfare of workers and the state of the regional economy. In determining the minimum wage, there are several indicators to consider. The first is the growth rate of the Gross Regional Domestic Product (GRDP). An increase in GRDP will cause revenue from the tax and levy sector to increase. GRDP is used to show the rate of overall economic growth from year to year, namely by using GRDP at Constant Prices (real).

The development of the Municipal Minimum Wage in Binjai Kec.Binjai Timur generally increases every year. This increase is in line with economic growth in Binjai Kec.Binjai Timur, one of which can be seen from the development of GRDP which tends to increase. Based on data from the Central Bureau of Statistics, it shows that the value of Gross Regional Domestic Product in the Municipality of Binjai Kec.Binjai Timur has increased every year.

In addition to using the Gross Regional Domestic Product (GRDP) indicator, the Labor Force Participation Rate (TPAK) is also used in determining the value of the Minimum Wage. TPAK can be used to determine the amount of labor supply, so that by knowing the level of labor supply, a decent wage for workers can be adjusted because wages are calculated based on labor supply. If labor supply increases, this excess labor supply will be absorbed by the informal sector, whose wage levels are not regulated by the government. Regulation, which in turn will reduce the wage rate. The increase in the labor force is due to the increase in the working-age population every year.

2. Literature Reviews

City Minimum Wage (UMK) has an important role in the economic structure of a region, especially to protect the welfare of workers and the people who live in it. The determination of MSEs cannot be separated from various factors, both macro and micro. Therefore, research on the factors that influence the determination of MSEs in Binjai City is very relevant. This literature review aims to explore the literature related to the determination of MSEs and the factors that influence them.

2.1. Minimum Wage Concept

Minimum Wage is the lowest limit given by employers to workers in the form of salary or wages. According to Government Regulation No. 78/2015 on Wages, MSEs are set by considering the need for a decent living, the inflation rate, and economic growth. In this case, the concept of decent living needs is often the main reference in setting MSEs (Khalid, 2017).

2.2. Wage Setting Theory

Wage-setting theory encompasses a variety of approaches. One commonly held view is the supply and demand theory of the labor market. According to this theory, wages will be determined by the balance between the number of workers who want to work at a certain wage and the number of jobs available (Smith, 2018). If the number of workers seeking employment is greater than the number of jobs available, then wages tend to be low, and vice versa.

2.3. Factors Affecting the Determination of MSEs Decent Living Needs (KHL)

KHL is a fundamental indicator used in determining the amount of MSEs. According to Rini and Hidayah (2020), KHL includes costs for food, shelter, clothing, health, education, and transportation. The increase in inflation also affects KHL, so it will have implications for the amount of MSE. Their research shows that the higher the KHL, which is calculated based on a survey of staple food prices, the higher the MSE set.

2.4. Inflation

Inflation plays an important role in setting the minimum wage. High inflation can lead to a decrease in workers' purchasing power. According to Susanto (2019), the existence of inflation in accordance with the level of economic growth will encourage the government to adjust the minimum wage to remain relevant and able to meet the needs of the community.

2.5. Economic Growth

Regional economic growth also affects the ability of companies to pay higher wages. The better the economic growth of a region, the more capable the company is to pay wages that are in line with labor expectations. Research by Mardianto and Yuniarti (2021) shows that regions with positive economic growth tend to have higher MSEs.

2.6. Labor Market Conditions

Labor market conditions are crucial in setting the MSE. In areas with high unemployment, the supply of labor is greater than the demand, which can influence the setting of the MSE to be lower. Conversely, if the labor market is tight, where there are many job vacancies and few job seekers, this tends to push the minimum wage higher (Aprilia, 2022).

2.7. Government Policy

Government policy also has a significant effect on the determination of MSEs. Through the policies taken, the government can determine how and how much the MSE will apply in an area.

According to the explanation of the Manpower Office (2020), policies that aim to maintain a balance between the interests of companies and the welfare of workers must always be considered.

2.8. The Impact of MSE Determination on the People of Binjai City

The setting of MSEs also has an impact on the community. Higher MSEs can increase people's purchasing power, but on the other hand, can result in increased production costs for entrepreneurs. This can encourage entrepreneurs to be more efficient and even affect the level of employment. A study by Gunawan (2021) shows that although higher MSEs have a positive impact on workers' income, the increase also has the potential to increase unemployment if it is not matched by adequate employment growth.

The determination of MSEs in Binjai City is influenced by various factors, including decent living needs, inflation, economic growth, labor market conditions, and government policies. Each of these factors is interrelated and has a major influence on community welfare. Therefore, it is important to conduct further research to understand the dynamics that exist in the community of Binjai City related to the determination of MSEs and their impact on the regional economy.

3. Research Method

3.1. Wage Theory

According to economic theory (Sukirno, 2005), wages can be interpreted as payments given to laborers for physical and mental services provided by employers and the total amount determined as a substitute for services that have been issued by laborers covering a certain period or conditions. The definition of wages according to Law No. 13 of 2003 in article 1 paragraph 30 concerning labor, which reads that wages are the rights of workers/laborers who are received and expressed in the form of money as compensation from employers or employers to workers/laborers who are determined and paid according to a work agreement, agreement, or laws and regulations, including benefits for workers/laborers and their families for work and/or services that have been or will be performed.

Based on these views, it can be concluded that wages are payments given to laborers for physical and mental services in return for employers and the total amount is determined as a substitute for services that have been issued by labor.

Changes in the wage rate will affect the company's production costs. If we assume that the wage rate increases, the following will happen:

- An increase in the wage rate will increase the firm's production costs, which in turn will increase the price per unit of goods produced. Consumers will respond to an increase in the price of goods by reducing their consumption or even no longer buying the goods in question. As a result, many goods are not sold, and producers are forced to reduce the amount of production. The reduction in production targets results in a reduction in the labor required. The decrease in the amount of labor required due to the effect of the decrease in the scale of production is called the production scale effect or scale effect.
- If the wage increases (assuming the price of other capital goods does not change), then there are entrepreneurs who prefer to use capital-intensive technology for the production process and replace the need for labor with the need for capital goods such as machinery and others. The decrease in the amount of labor required due to the replacement or additional use of machines is called the labor substitution effect.

3.2. Municipal Minimum Wage

Minimum Wage is a minimum (lowest) monthly receipt as compensation from employers to employees for work or services that have been or will be performed and expressed in the form of money determined on the basis of an agreement or laws and regulations and paid on the basis of a work agreement between employers and employees including benefits, both the employee himself and for his family. As stipulated in Government Regulation No.8/1981, minimum wages can be set on a minimum regional, regional sectoral or sub-sectoral basis, although currently only regional minimum wages are owned by each region.

Based on Law No. 13 of 2003, it is stated that the minimum wage is only intended for workers with a working period of 0 (zero) to 1 (one) year. This definition contains two important elements of the minimum wage, namely:

- The starting wage is the lowest wage that a worker must receive when he or she is first hired.
- The minimum wage must be able to meet the minimum needs of workers, namely the need for clothing, food and household needs.

In accordance with the Decree of the Minister of Labor and Transmigration No. 226 of 2000 concerning Minimum Wage, it is explained that the minimum wage can be determined both at the Provincial and Municipal/City levels. The minimum wage is determined by the Governor by a Governor Decree, based on input from the Wage Board, which comes from a process of determining the minimum wage carried out by the Wage Board consisting of elements of workers, elements of employers and elements of government in determining the need for a decent life on the basis of the components of determining the minimum wage. The Municipal Minimum Wage is a monthly wage consisting of a basic wage including fixed benefits in a Municipality.

The Municipal Minimum Wage is a minimum standard used by employers or industry players to provide wages to employees, employees or laborers in their business or work environment in a Municipality / City in a certain year (Minister of Manpower Regulation No. 05/Men/1989 dated May 29, 1989).

3.3. Provisions and Determination of Minimum Wage

Simanjuntak (2002) in his paper entitled Wage and Social Security Issues, states that the government annually or once every two years sets a minimum wage for each province or for several adjacent municipalities. The purpose of setting the minimum wage is to:

- Avoiding or reducing unhealthy competition among workers in a surplus market, which encourages them to accept wages below a reasonable level.
- Avoiding or reducing the possibility of exploitation of workers by employers who utilize labor market conditions for the accumulation of their profits.
- Creating safer and more harmonious industrial relations.
- Reducing the poverty level of workers, especially if the minimum wage is linked to the basic needs of workers and their families.
- Increased purchasing power of the people, which in turn will encourage general economic growth.

3.4. Factors Affecting Minimum Wage Determination

According to the Regulation of the Minister of Manpower and Transmigration No. 07 of 2013, the factors that affect the minimum wage are the need for a decent living (KHL) by taking into account productivity, economic growth and inflation. The minimum wage is directed at achieving KHL, namely by comparing the amount of the minimum wage adjusted to the value of KHL in the same period.

According to Bersales (2014), minimum wage determination also uses other factors, including:

- Consumer Price Index

The Consumer Price Index (CPI) is a measure of the overall cost of goods, and services purchased by consumers (Mankiw, 2013). The CPI is used to measure changes in the cost of living and how much income must be raised to maintain a constant standard of living.

- Labor Force Participation Rate

The labor force is defined as the sum of employed and unemployed people (Mankiw, 2013). The Labor Force Participation Rate is a commonly used indicator to analyze labor force participation.

- Gross Regional Domestic Product

Gross Regional Domestic Product (GRDP) is the market value of all finished goods and services produced in a region in a given period (Mankiw, 2013). GRDP data in practice is used not only to measure how much output is produced, but also as a measurement of the welfare of a region's population.

- Income per Capita

Per capita income is the average income of a country's population in a certain period (Sukirno, 2013). Society is considered to have increased prosperity if per capita income at constant prices or real per capita income continues to increase.

3.5. Type of Research

The type of research used in this research is associative research. Associative research is research that aims to determine the relationship between two or more variables.

3.6. Data Type and Source

The data used in this research is Quantitative Data. Data expressed in the form of numbers, such as data on the Municipal Minimum Wage (UMK), Gross Regional Domestic Product (GRDP) and Labor Force Participation Rate (TPAK).

Data sources in this study are secondary data sources sourced from the Central Statistics Agency (BPS) in the form of Gross Regional Domestic Product (GRDP) and Labor Force Participation Rate (TPAK) data, and from the Manpower and Transmigration Office (Disnakertrans) of the Municipality of Binjai Kec. Binjai Timur Besar in the form of Minimum Wage data of the Municipality of Binjai Kec. Binjai Timur.

3.7. Data Collection Technique

Data collection techniques are used to obtain accurate data, so data collection techniques in a study are needed. Data collection technique is one of the systematic and standard procedures for obtaining the data needed in conducting research. The data collection techniques used in this study, namely:

- Literature Study

Literature study is carried out by studying and taking data from related literature and other sources that are considered to provide information about this research, such as research from Eka Nursakinah, Rahma Merdekawati and Ilham Kistanto.

- Documentation

Documentation is used to collect data from several official documents that have been published. To collect data from the Central Bureau of Statistics using the Binjai catalog, East Binjai Kec.

3.8. Data Analysis Technique

Data analysis refers to the process of utilizing available data and processing it statistically to address the research problem formulation. The techniques used in this study include the Classical Assumption Test, Multiple Linear Regression Analysis, and the Coefficient of Determination. The Classical Assumption Test consists of a normality test, which assesses whether the residuals are normally distributed—typically illustrated by a bell-shaped curve—and a linearity test, which verifies whether the relationship between variables is linear. Multiple linear regression analysis is employed to examine the influence of independent variables—Gross Regional Domestic Product (X1) and Labor Force Participation Rate (X2)—on the dependent variable, namely the Municipal Minimum Wage (Y), using the regression model $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$, where α is the constant, β_1 and β_2 are regression coefficients, and e is the error term. This analysis is processed using SPSS software. Furthermore, the coefficient of determination (R^2) is used to measure the proportion of variance in the dependent variable explained by the independent variables, indicating the strength of the model's explanatory power.

4. Results and Discussion

4.1. Classical Assumption Testing Results

a. Normality Test Results

Based on the test results using SPSS, the normality test results show that the points are around the diagonal line. This shows that the regression model is normally distributed.

b. Linearity Test Results

Based on the test results, the linearity test shows that the scatterplot spreads randomly, so it can be concluded that the regression model is formed linearly.

4.2. Multiple Linear Regression Analysis Results

Based on the test results using SPSS, the following equation can be compiled:

$$Y = -7174,165 + (0.687) X_1 + (57.556) X_2 + e$$

Where:

Y = Municipal Minimum Wage (UMK)

X₁ = Gross Regional Domestic Product (GRDP)

X₂ = Labor Force Participation Rate (TPAK)

Based on testing the effect of the independent variables on the dependent variable, the following results are obtained:

- The tcount value of the gross regional domestic product variable on the minimum wage of the Municipality is 6.886 while the ttable value is 7.341, or the tcount value is smaller than the ttable ($6.886 < 7.341$). This means that the gross regional domestic product variable (X₁) does not have a significant influence on the level of determination of the minimum wage of the Municipality of Binjai Kec. Binjai Timur (Y).
- The tcount value of the variable labor force participation rate on the minimum wage of the Municipality is 2.037 while the ttable value is 6.781, or the tcount value is smaller than the ttable ($2.037 < 6.781$). This means that the variable level of labor force participation (X₂) does not have a significant influence on the level of minimum wage determination of the Municipality of Binjai Kec. Binjai Timur (Y).
- The Fcount value of the gross regional domestic product variable and the labor force participation rate on the minimum wage of the Municipality is 45.564 while the Ftable value is 25, or the Fcount value is greater than Ftable ($45.564 > 25$). This means that the independent variables consisting of the gross regional domestic product variable (X₁) and the labor force participation rate variable (X₂) simultaneously have a significant influence on the level of minimum wage determination of the Municipality of Binjai Kec. Binjai Timur (Y).

4.3. Results of the Coefficient of Determination (R²)

Based on the results of the coefficient of determination calculation using the SPSS program, the R² value is 2.541. This shows that the correlation is very strong because it is close to 1.

Gross Regional Domestic Product describes the ability of a region to create output (added value) generated for all business areas and services in a region and at a certain time. Based on the results of the research and analysis that has been carried out, it shows that the gross regional domestic product variable has no influence on the determination of the minimum wage of the Municipality of Binjai Kec. Binjai Timur.

The more the value of the gross regional domestic product variable increases, the value of the minimum wage determination for the Municipality of Binjai Kec. Binjai Timur in the following year will also increase. The increasing value of the Municipal Minimum Wage, domestic consumption will also tend to increase. People's purchasing power will strengthen and this will also have an impact on the growth in the value of gross regional domestic product caused by overall regional income.

The results of this study are inconsistent with the results of research by Ilham Kistanto (2013) on Analysis of Minimum Wage Determination of Jember Municipality, where the gross regional domestic product variable has a significant influence on the determination of the minimum wage of Jember Municipality.

4.4. Force Participation Rate

This is the percentage for calculating labor force participation. The percentage value of the labor force participation rate can be seen based on an increase in labor supply, this will affect the level of determination of the minimum wage value of the Municipality to be determined. Based on the results of the research and analysis that has been carried out, it shows that the variable labor force participation rate has no influence on the determination of the minimum wage of the Municipality of Binjai Kec.Binjai Timur.

A decrease in the value of the labor force participation rate will cause the value of the minimum wage of the Municipality to decrease, this is due to the lack of labor force age activity towards economic activities that should contribute to increasing economic growth. The results of this study are inconsistent with the results of research by Febrika Nurtiyas (2016) who conducted research on the Analysis of Factors Affecting Provincial Minimum Wages in Java Island in 2010-2014. The results of his research show that the variable labor force participation rate affects the value of the minimum wage on the island of Java.

While the gross regional domestic product variable and the labor force participation rate variable have a significant influence on the determination of the minimum wage of the Municipality of Binjai Kec.Binjai Timur. This means that if the gross regional domestic product and the labor force participation rate increase, the value of the minimum wage determination for the Municipality of Binjai, East Binjai District in the following year will also increase. Vice versa, if there is a decrease in the value of the gross regional domestic product and the level of labor force participation decreases, it will result in a decrease in the value of the minimum wage determination of the Municipality of Binjai Kec.Binjai Timur in the following year.

The percentage of gross regional domestic product variables and labor force participation rate variables influenced the determination of the minimum wage value of the Municipality of Binjai Kec.Binjai Timur by 135.7% and the remaining 4.8% was influenced by other variables outside the study, such as decent living needs, consumer price index and inflation.

5. Conclusion

Based on the hypotheses that have been presented and the results of the analysis conducted, it can be concluded that Gross Regional Domestic Product (GRDP) and Labor Force Participation Rate (TPAK) each show no significant influence on the determination of the Minimum Wage of Binjai Municipality, East Binjai Sub-district. However, when GRDP and TPAK were analyzed simultaneously, both were found to have a significant effect on the setting of the Minimum Wage in the region. This suggests the importance of considering the interaction between various economic factors in determining minimum wage policy, as well as the need for further research to understand the dynamics that influence these conditions in Binjai City.

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