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## **Analysis of Inflation, Regional Gross Domestic Product and Minimum Wage on Employment Absorption in East Nusa Tenggara Province**

**Muhammad Zidan Al Aziz Rahmatullah<sup>1\*</sup>, Marseto<sup>2</sup>**

Universitas Pembangunan Nasional Veteran Jawa Timur, Indonesia<sup>1</sup>

Universitas Pembangunan Nasional Veteran Jawa Timur, Indonesia<sup>2</sup>

Corresponding Email: zidanandro@gmail.com\*

*Received: 21-05-2024*

*Reviewed: 05-06-2024*

*Accepted: 21-06-2024*

### **Abstract**

Based on observations of phenomena in the East Nusa Tenggara Province, this region demonstrates significant progress across various sectors such as tourism, education, and industry, supported by increases in minimum wages, constant domestic economic growth (constant GDRP), and relatively low inflation rates. However, this situation has not successfully optimized labor absorption. This study aims to examine the "Impact of Inflation, GDRP, and Minimum Wage on Employment Absorption in the East Nusa Tenggara Province". The methodology employed is multiple linear regression with a time range from 2010 to 2022, focusing on the East Nusa Tenggara Province. The independent variables in this study are inflation, GDRP, and minimum wage, while the dependent variable is employment absorption. The results indicate that inflation and minimum wage variables significantly influence employment absorption, while the GDRP variable does not affect employment absorption.

**Keywords:** Employment Absorption, Inflation, GDRP, Minimum Wage

### **Introduction**

Developing countries like Indonesia strive to advance their economies to achieve prosperity and well-being for their citizens. The goal of economic development is to improve the living standards of the population, create broader job opportunities, and reduce income disparities while addressing poverty issues in various regions. One measure of a country's economic development success is the number of jobs created. Human resources also play a crucial role in the economic development process. However, when the large population size is not matched by the available job opportunities, it can become a constraint, particularly for those seeking employment in their productive years (Anamathofani, 2019).

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The expansion of job opportunities is necessary to balance the growing number of young people entering the labor market. An imbalance between the growth of the labor force and the creation of new jobs can result in high unemployment rates. The impact of rising unemployment includes the wastage of human resources and available workforce potential, an increased social burden, being a major cause of poverty, and potentially leading to social instability, as well as hindering long-term economic development (Depnakertrans, 2014).

The issue of employment absorption is a challenge faced by many regions in Indonesia, including the Province of East Nusa Tenggara. This province has the sixth highest number of islands in Indonesia, totaling 609 islands, with an area of 47,931 km<sup>2</sup> and a population of approximately 5,446,285 people in 2012, resulting in a population density of 144 people per km<sup>2</sup>.

East Nusa Tenggara (NTT) has experienced significant growth in its labor force. According to data from BPS, in August 2020, the labor force in NTT reached 2.85 million people, an increase of 5.56% from August 2019, which was 2.70 million people. However, this increase was not matched by optimal employment absorption, as reflected in the rise of the open unemployment rate (TPT) in NTT from 3.14% in August 2019 to 4.77% in August 2020 (BPS, 2024).

The unemployment rate in East Nusa Tenggara Province fluctuated from 2010 to 2022. The highest unemployment rate was in 2020, at 4.77%, due to the Covid-19 pandemic. One of the efforts made by the government to address employment issues is improving the wage system through minimum wage policies. Implementing minimum wage policies aims to increase workers' per capita wages, thereby raising the average wage level for the labor force. Below is the annual increase in the minimum wage of East Nusa Tenggara Province.

The increasing of minimum wages in the East Nusa Tenggara Province, which continues to rise year after year. However, despite this positive increase, it has not yet been able to reduce the unemployment rate in the region. The minimum wage policy is a common wage system that fundamentally encompasses two aspects. First, it serves as a form of protection for workers to ensure that the value of the wages they receive does not decrease to the extent that it affects their daily living needs. Second, it acts as a protective measure for companies to maintain worker productivity (Sulistiawati, 2012).

Economic growth is an ongoing issue faced by countries or specific regions over the long term. The economic growth of an area can be measured by monitoring the growth of the Gross Regional Domestic Product (GRDP) at constant prices. GRDP includes the added value of goods and services produced by production units within a region over a certain period (BPS, 2024).

The Gross Regional Domestic Product (GRDP) of East Nusa Tenggara Province, measured at constant prices, has increased. It is hoped that this economic growth will have a positive impact on the welfare of the community, particularly through the creation of more jobs with adequate wages. However, despite the increase in the GRDP of East Nusa Tenggara Province, the absorption of labor has not shown a significant increase.

With significant economic growth, it is expected to achieve strong and stable monetary and economic stability. One of the parameters for evaluating development and high economic growth is through the increase in per capita income. Employment absorption becomes an important indicator in assessing the increase in per capita income. Population growth must be in line with job creation because if it is not balanced, it can result in high unemployment rates and create inequality in per capita income.

The absorption of labor is also influenced by the inflation rate. Inflation in the economy of a region has various consequences, including its ability to alter output and the number of workers employed. This prompts companies to adjust their production, either increasing or decreasing it, depending on the prevailing inflation rate (Nanga, 2005).

If inflation in the economy is relatively mild, as indicated in the table, companies will strive to increase their output or production. Mild inflation can motivate producers because the price increases are still manageable. A company's desire to increase output will naturally be accompanied by the addition of production factors, such as labor. In this situation, the demand for labor will rise, which in turn increases employment absorption and ultimately drives economic growth through higher national income.

Based on observations of the phenomenon in the East Nusa Tenggara Province, this region shows significant progress, evident from developments in various sectors such as tourism, education, industry, and others. Furthermore, this progress is supported by increases in the minimum wage and constant economic growth (constant GDP) from year to year, as well as relatively low inflation rates. However, these conditions have not yet successfully optimized labor absorption. This situation prompts the author to conduct research on "The Impact of Inflation, GDP, and Wages on Labor Absorption in East Nusa Tenggara Province."

## **Literature Review**

### **Employment Absorption**

According to the Keynesian theory introduced by John Maynard Keynes (Mankiw, 2018), it emphasizes that the government can play a significant role in managing the economy to reduce unemployment and increase employment absorption. Keynes argued that in times of recession, markets are not always able to reach equilibrium automatically and often require government intervention to boost aggregate demand. He advocated that through fiscal policies such as increasing public spending and cutting taxes, the government can stimulate economic activity, which in turn will create more jobs and reduce the unemployment rate.

### **Inflation**

According to Keynesian theory (Mankiw, 2018), This theory considers that the economy has reached full employment level. According to Keynes, the amount of money in circulation does not affect the total demand level, as the economy can experience inflation even if the amount of money in circulation remains stable. If the amount of money in circulation increases, then prices will rise. This price increase will boost the demand for transaction money,

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which in turn will raise interest rates. This increase in interest rates will hinder the rise in demand for investment and reduce inflationary pressures. Keynes' analysis of demand inflation is based on the concept of inflationary gaps. According to Keynes, the demand inflation that is truly significant is that caused by government spending, especially related to war and large-scale investment programs in social capital

### **Gross Domestic Regional Product**

Drawing upon the structural change theory proposed by Sir W. Arthur Lewis, the transformation process of economies from traditional agriculture-based sectors to modern industrial sectors is highlighted. Lewis argued that the economies of developing countries are initially dominated by surplus labor in low-productivity agricultural sectors, which then flows into higher-paying and more productive industrial sectors. This migration of labor from agriculture to industry stimulates economic growth and structural changes within the economy (Todaro, 2020).

### **Minimum Wage**

The Keynesian theory suggests that increasing wages can significantly boost workers' purchasing power. John Maynard Keynes, in his famous work "The General Theory of Employment, Interest, and Money," stated that when workers' wages increase, they have more money to spend on goods and services (Krugman & Wells, 2021). This, in turn, stimulates aggregate demand, which can further drive production and create more job opportunities. In the context of macroeconomics, this increase in purchasing power creates a positive multiplier effect, where each additional consumer expenditure generates a larger income increase in the overall economy (Handayani & Sutanto, 2019).

### **Research Method**

This research employs a quantitative descriptive method, focusing on understanding and describing a specific phenomenon involving the characteristics of variables within a particular life context. These variables are then analyzed objectively by applying a theoretical approach (Jaya, 2020). Research using an associative method through a quantitative approach aims to demonstrate the relationship between two or more variables. The focus of this study is to understand how one variable relates to another and whether this relationship can cause changes (Hermawan & Yusran, 2017).

The independent variables in this research include inflation, gross domestic regional product, while the dependent variable is employment absorption. The data is sourced from the official website of the Central Statistics Agency (BPS), covering the years from 2010 to 2022. For the analysis, multiple linear regression is used as the primary tool. This method includes classical assumption tests, such as tests for normality, autocorrelation, multicollinearity, and

heteroscedasticity, to examine the relationships between variables effectively. The analysis in this research is supported using IBM SPSS Statistics version 25 software as an aid for testing.

**Result**

**A. Normality Test**

**Table 1. Normality Test (One Sampe K-S) Results**

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	13
Asymp. Sig. (2-tailed)	.200*

*Source: SPSS 25*

Based on Table 1, If the residual significance value exceeds 0.05, the data will follow a normal distribution. In the normality test results provided, the Assymp Sig. (2-tailed) has a value of 0.200. Therefore, it can be concluded that the data tends to be normally distributed because the residual significance value is 0.200, which is greater than 0.05. Thus, the regression model in this study meets the assumption of normality.

**B. Autocorrelation Test**

**Table 2. Runs Test Results**

	Unstandardized Residual
Test Value <sup>a</sup>	.22259
Cases < Test Value	7
Cases >= Test Value	8
Total Cases	15
Number of Runs	8
Z	.000
Asymp. Sig. (2-tailed)	1.000

*Source: SPSS 25*

Based on the results of the Run Test, the decision is made based on the significance value of Asymp. If the Asymp significance value is less than 0.05, there is an indication of autocorrelation; conversely, if it is greater than 0.05, there is no indication of autocorrelation. Analysis from the table indicates that the Asymp significance value is 0.235 > 0.05. Therefore, it can be concluded that the regression model in this study does not experience autocorrelation.

**C. Multicollinearity Test**

**Table 3. Multicollinearity Test Results**

Variabel	VIF	Ketentuan	Keterangan
X1	3,133	$\leq 10$	Multicollinearity does not occur
X2	1,822	$\leq 10$	Multicollinearity does not occur
X3	4,345	$\leq 10$	Multicollinearity does not occur

*Source: SPSS 25*

From the table presented above, it can be concluded that all independent variables, namely X1, X2, X3, and X4, do not show signs of multicollinearity or can be said to be free from multicollinearity issues because the Variance Inflation Factor (VIF) values are less than 10.

**D. Heteroscedasticity Test**

**Table 4. Heteroscedasticity Test Results**

Variabel	Sig.	Ketentuan	Keterangan
X1	0.951	$\geq 0.05$	Heteroscedasticity does not occur
X2	0.624	$\geq 0.05$	Heteroscedasticity does not occur
X3	0.901	$\geq 0.05$	Heteroscedasticity does not occur

*Source: SPSS 25*

From Table 4, the test on the dependent variable of labor absorption shows that all residual values have a value greater than 0.05. Therefore, it can be concluded that there is no correlation between the residual values and the explained variables, indicating that there is no heteroscedasticity in the equation model used in this study.

**E. Coefficient of Determination**

**Table 5. Coefficient of Determination Test Results**

Model	R	R Square	Adjusted R Square
1	.969 <sup>a</sup>	0.940	0.920

*Source: SPSS 25*

According to the data displayed in the table, it is found that the coefficient of determination R<sup>2</sup> reaches 0.969 or equivalent to 96.9%. This indicates that about 96.9% of the variation in the dependent variable, Labor Absorption, can be explained by its independent variables. The remaining approximately 3.1% may be influenced by other factors not studied in this research.

**F. F-Test**

**Table 6. F-Test Results**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.428E+11	3	3.143E+11	46.707	.000b
	Residual	6.056E+10	9	6728716274		
	Total	1.003E+12	12			

*Source: SPSS 25*

Based on the results of the above F test, it can be determined that the calculated F value is 46.707 with a significance level of 0.000 at a significance level of 5% or 0.05, so the F test result has a significance value of  $0.00 < 0.05$ . With  $df\ 1 = 3$  and  $df\ 2 = 9$ , the obtained table F value is 3.860, so when compared, the calculated F value  $46.707 > F\ table\ 3.860$ . This means that H1 is accepted, indicating the influence of independent variables (Inflation, GDP, and Minimum Wage) on the dependent variable (Labor Absorption) simultaneously.

**G. t-Test**

**Table 7. t-Test Results**

Variabel	t Hitung	t Tabel	Sig.
Inflasi (X1)	2.585	2.228	0.029
PDRB (X2)	-1.918	2.228	0.087
Upah Minimum (X3)	6.399	2.228	0.000

*Source: SPSS 25*

Based on Table 7, the analysis results are as follows:

1. The Effect of Inflation on Labor Absorption

Based on the test results, the calculated t value is  $2.585 > t\ table\ 2.228$  with a significance value of  $0.029 < 0.05$ , thus it can be concluded that H0 is rejected and H1 is accepted, indicating that partially, the inflation variable has a significant positive effect on labor absorption.

2. The Effect of Gross Domestic Regional Product on Labor Absorption

Based on the test results, the calculated t value is  $-1.918 < 2.228$  with a significance value of  $0.087 > 0.05$ , therefore it can be concluded that H0 is accepted and H1 is rejected, indicating that partially, the GDRP variable does not have a significant negative effect on labor absorption.

3. The Effect of Minimum Wage on Labor Absorption

Based on the test results, the calculated t value is  $6.399 > t\ table\ 2.228$  with a significance value of  $0.00 < 0.05$ , thus it can be concluded that H0 is rejected and H1 is

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accepted, indicating that partially, the minimum wage variable has a significant positive effect on labor absorption.

### **Discussion**

The Inflation variable has a significant impact on the Employment Absorption variable in East Nusa Tenggara Province from 2010 to 2022, which means that when inflation occurs in East Nusa Tenggara Province, the absorption of labor by companies, households, or other job fields has a significant effect in East Nusa Tenggara Province. This is in line with Keynesian theory, which emphasizes the importance of aggregate demand in determining the level of economic activity and employment absorption. Low and stable inflation creates a more certain and predictable economic environment. When companies are confident that prices will remain stable, they are more likely to make long-term investments and expansions, which require additional labor (Johnson & Lee, 2022). Additionally, low inflation maintains consumer purchasing power, which stimulates demand for goods and services. This increased demand, in turn, drives companies to increase production, requiring additional labor. Thus, low inflation can create a conducive economic environment for job growth (Genie, 2017).

The Gross Regional Domestic Product (GRDP) variable has an insignificant impact on the Employment Absorption variable in East Nusa Tenggara Province from 2010 to 2022, which means that when the Gross Regional Domestic Product in East Nusa Tenggara Province increases, there is a decrease in Employment Absorption by companies, households, and other job fields. Although the GRDP in East Nusa Tenggara Province has shown balanced growth in recent years, the analysis concludes that employment absorption is not significantly affected by this economic growth. This may be related to the phenomenon of structural change explained in Sir W. Arthur Lewis's theory. This theory states that in the early stages of economic development, economic growth can be achieved without significant changes in employment absorption because most growth is driven by increased productivity in non-agricultural sectors. Therefore, even though the GRDP of East Nusa Tenggara Province continues to increase, the productivity improvements in certain sectors may not be significant enough to absorb the available labor force, especially in the context of the structural and geographical challenges faced by this province (BPS, 2024).

The Minimum Wage variable has a significant positive impact on the Employment Absorption variable in East Nusa Tenggara Province during the period from 2010 to 2022. This means that when the Minimum Wage increases, the absorption of labor by companies, households, and other job fields is significantly affected in East Nusa Tenggara Province. This aligns with Keynesian theory, which states that increasing wages can enhance workers' purchasing power, thereby increasing demand for goods and services. As demand for goods and services rises, companies respond by increasing production to meet this demand. This increased production often requires additional labor, prompting companies to hire more workers. Thus, raising the minimum wage not only improves workers' welfare through higher



income but also stimulates economic growth through higher aggregate demand mechanisms, consequently creating more job opportunities (Smith, 2023).

## **Conclusion**

The analysis reveals that inflation and minimum wage have significant positive impacts on labor absorption in East Nusa Tenggara Province from 2010 to 2022. When inflation occurs, there is a tangible effect on labor absorption by entities such as companies, households, and other job fields. Similarly, an increase in the minimum wage leads to notable effects on labor absorption, aligning with Keynesian theory's notion of enhanced purchasing power stimulating demand and job creation. However, the Gross Regional Domestic Product (GRDP) variable shows an insignificant impact on labor absorption during the same period, possibly due to structural and geographical challenges faced by the province. These findings underscore the importance of considering various economic factors and policies in understanding labor market dynamics and formulating effective employment strategies.

## **Suggestion**

Given the significant positive impact of minimum wage on labor absorption, the government could consider implementing policies that ensure fair and competitive wages across various sectors. This could involve regular assessments and adjustments of the minimum wage to reflect the region's economic conditions and cost of living. Additionally, providing support and incentives for businesses to comply with minimum wage regulations can help maintain a healthy labor market and stimulate economic growth.

Recognizing the limited impact of Gross Regional Domestic Product (GRDP) on labor absorption, there is a need to diversify economic activities in the province. Community-driven initiatives and government programs can focus on promoting and supporting industries with high potential for job creation, such as tourism, agriculture, and small-scale manufacturing. Encouraging entrepreneurship and providing training and resources to local residents can foster the development of sustainable businesses and reduce reliance on sectors with limited employment opportunities. Through collaboration between the government, private sector, and communities, East Nusa Tenggara Province can achieve a more resilient and inclusive economy, leading to improved livelihoods and opportunities for its residents.

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