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**THE EFFECT OF MINIMUM WAGE TOWARDS EMPLOYMENT
ABSORPTION AND COMMUNITY WELFARE IN EX BESUKI,
RESEDENCY, EAST JAVA – INDONESIA**

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ABSTRACT:

The research aims to determine the effect of minimum wages on employment and welfare of the people in the ex-Residency of Besuki, east java, Indonesia. Related to this, whether the increase in wages is consistent with an increase in labor absorption and the welfare of the people who are pockets of poverty in the ex- Residency of Besuki, east java province, Indonesia. Research using evIEWS 9.0 analysis tools. Data collection methods from the east java central statistics agency (BPS) in 2005 - 2017 related to the district minimum wage, employment, and community welfare through the human development index (HDI). The analysis concluded that the district minimum wage had a positive and significant effect on the employment and welfare of the community. The findings of this study conclude that minimum wages only apply to several commercial sectors and are not extended to the public (non-profit) sector. The high number of employment is because they receive wages below the minimum wage standard because there is no other choice with consideration than being unemployed means that they do not get any wages at all and cannot meet basic needs.

INTRODUCTION:

The existence of government regulations regarding minimum wages, as stipulated in Law No. 13 of 2003 concerning Manpower, raises vertical conflicts between the government, employers, and the community as workers. Every government announces the amount of wages at the end of the year so long there is also a demonstration. Problems and implementation of minimum wage policies are generally not in accordance with applicable laws and regulations. Deviations from the implementation of the minimum wage policy cause conflict.

Some literature and empirical evidence raises the debate about the effect of minimum wage increases on employment, and This shows that there are inconsistencies both in terms of theoretical and research findings regarding the effect of minimum wages on employment. This debate has the implications of a minimum wage policy that is always updated to improve the welfare of the workforce. This situation provides an opportunity for researchers to conduct research, the aim is to bridge the gap between research results and empirical policies, as well as existing theories.

As a result of the problems caused by the increase in the minimum wage and its effect on the employment and welfare of people in locations that are pockets of poverty in the Ex-resident of Besuki, East Java Province can not be explained in detail. Related to the problems that occurred in the Besuki Ex Residency of East Java Province, research was conducted to find out the effect of the minimum wage on labor absorption and the welfare of the people at the Besuki Residency, East Java, Indonesia.

LITERATURE REVIEW:

Wages by the state have been advocated for four main reasons: (1) as a means of building minimum wages without competitive pressures and employers should not force labor; (2) as a means to improve labor and industrial efficiency; (3) as a means to prevent or reduce strikes; (4) as a means of increasing the purchasing power of consumers so that, will increase the amount of goods produced and consumed, as well as increasing the absorption of labor (Douglas, P.H.1934: 184). Keynes in "General Theory of Employment, Interest, and Money" (1936: 155), concerning the Labor Market, that real wages are opportunity costs or the relative price of leisure. The assumption used is that companies operate in a competitive market system, so companies tend to employ laborers with wage levels equal to the value of the marginal product of labor (VMPL). VMPL is the maximum wage rate that the company wants to pay to make a maximum corporate profit.

Labor absorption is the number of jobs that have been filled, as reflected by a large number of people employed. The change in labor absorption equals a decrease in the ratio of total labor to employment. In the State of Indonesia, using the lower working age limit (economically active population) 15 years (BPS, 2015). Keynes in "General Theory of Employment, Interest, and Money" (1936: 155), about the Labor Market, that real wages are opportunity costs or the relative price of leisure. The assumption used is that the company operates in a competitive market system, so the company tends to employ workers with a wage rate equal to the value of the marginal product of labor (VMPL). VMPL is the maximum wage rate that the company is willing to pay to make a maximum corporate profit.

Community welfare is a condition that the material, spiritual, and social needs of citizens have been fulfilled so that they can develop themselves and be able to carry out their social functions (Law No. 11 of 2009). Social welfare can also be interpreted as the welfare of a community. The implementation of social welfare must be directed and integrated and sustainable. The Government and regional governments must do this problem, and the community in the form of social service to meet the basic needs of every citizen. The type

can be social rehabilitation and social security, as well as social empowerment and social protection. The purpose of all of this is so that it can improve the level of welfare and quality and survival as well as restore social functions to achieve independence, increase social security and prevent and deal with social welfare problems.

Functions relevant to well-being vary from basic ones such as escape from morbidity and mortality. It is nutritious enough, has mobility, and so on, leading to complex problems like happiness, self-esteem. Social welfare can be measured by measures such as levels of living, basic needs fulfillment, quality of life, and human development (Sen, 2002). Human development is the development of society through the development of human capabilities, by the community through active participation in the processes that shape lives by improving their lives. This definition becomes broader than other approaches, such as the human resource approach, the basic needs approach, and the community welfare approach (UNDP, 2016).

METHODOLOGY:

The study was conducted with a quantitative approach. The research data was carried out using Eviews 9.1 software. As for research using panel data estimation with the OLS pooled model approach, Fixed Effect Model, and Random Effect Model. Testing research with chow test and Hausman test. The study was conducted with a secondary data approach and sampling at the Central Statistics Agency (BPS) of East Java Province during 2015 - 2017, with the data, used related to the Regency Minimum Wage (MSE), Labor absorption and Community Welfare formulated through the Human Development Index (HDI).

RESULT AND DISCUSSION:

Classic assumption test

The testing of classical assumptions aims to find out whether the regression model is good or not if used to do the assessment. A model is said to be good if it is BLUE (Best Linear Unlimited Estimator) that is fulfilling classical assumptions or avoiding the problems of multicollinearity, autocorrelation, and heteroscedasticity. The classic assumption test is carried out to ensure that the panel data analysis is free from violations of the assumptions that can provide an incorrect interpretation of the results of the panel data regression analysis. Three main problems often arise that can lead to non-fulfillment of basic assumptions, namely: Multicollinearity, Heteroscedasticity, Autocorrelation. For the Multicollinearity Test stage was not carried out because the test aims to test the correlation between independent variables (exogenous), this study only has one independent variable. So this research only conducted heteroscedasticity test and autocorrelation test. The classic assumption test for each research model is explained as follows:

For test $Y_{it} = C + b_1 X_{it} + e_{it}$

- a) The autocorrelation test is the relationship between one observation residual and another observation residual in the regression model. Autocorrelation can be known through the Breusch-Godfrey Test, if the value of $prob < 0.05$, then autocorrelation symptoms occur while if the value of $prob > 0.05$, then autocorrelation symptoms do not occur. Autokoleration test is a test used to test the presence or absence of serial correlations in the regression model or to find out whether, in the model used, there is autocorrelation between the observed variables. This study has no Lag variable, so using the Durbin Watson autocorrelation test.

Table 1: Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	49,37658	Hannan-Quinn criter.	26,86863
Prob(F-statistic)	0,000000	Durbin-Watson stat	1,652928

The results of the study of the Durbin-Watson value were 1.6529, so that $4-d = 4 - 1.6529$ is equal to 2.33471 while dL is 1.4797. So $(4-d) > dL$ or $2.33471 > 1.4797$. then there is no negative autocorrelation, while $1.6529 > 1.6359$ there is no positive autocorrelation. In conclusion, the results do not occur the existence of autocorrelation.

- b) Heteroscedasticity test is done to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another. To detect heteroscedasticity is to regress the model with log squared residue as the dependent variable. Decision making is done if the probability value < 0.05 (significant level or $\alpha = 0.05$), then heteroscedasticity occurs, if on the contrary the probability value > 0.05 , homoscedasticity occurs.

Table 2: Heteroscedasticity Test Results

Heteroskedasticity Test: White			
F-statistic	0,043934	Prob. F(1,42)	0,8350
Obs*R-squared	0,045978	Prob. Chi-Square(1)	0,8302
Scaled explained SS	0,014960	Prob. Chi-Square(1)	0,9027

From the results of the heteroscedasticity test using the white method. The decision of whether or not heteroscedasticity occurs in the linear regression model by knowing the Prob value. Chi-Square (1). Based on the results of the probability analysis (F-statistic) of 0.8350, which is more significant than alpha 0.05 (5%), then H_0 is accepted, which means there is no heteroscedasticity.

for testing: $Y_{2it} = C + b_2X_{it} + e_{it}$

- a) The autocorrelation test is the relationship between one observation residual and another observation residual in the regression model. Autocorrelation can be known through the Breusch-Godfrey Test, if the value of prob < 0.05 , then autocorrelation symptoms occur while if the value of prob > 0.05 , then autocorrelation symptoms do not occur. Autokoleration test is a test that is used to test the presence or absence of serial correlations in the regression model or to find out whether in the model used, and there is an autocorrelation between the observed variables. This study has no Lag variable, so using the Durbin Watson autocorrelation test.

Table 3.: Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	49,37658	Hannan-Quinn criter.	15,69509
Prob(F-statistic)	0,000000	Durbin-Watson stat	1,981801

The Durbin-Watson Stat value, which is 1.9818, is the Durbin Watson Calculate value (commonly abbreviated = d), which can be compared to the dU (upper limit of DW) and dL (lower limit of DW) values in the Durbin Watson table. If $(4-d) < dL$, then there is a negative autocorrelation. If $(4-d) > dL$, then there is no negative autocorrelation, whereas if $d > dU$, then there is no positive autocorrelation. The conclusion is that in the regression analysis, there is no positive autocorrelation and no negative autocorrelation, so there is absolutely no autocorrelation.

This study calculated the Durbin-Watson value of 1.9818 so that $4-d = 4- 1.9818$ is equal to 2.0182 while $dL = 1.4741$. So $(4-d) > dL$ or $2.0182 > 1.4741$. then there is no negative autocorrelation, while $1.9818 > 1.6334$ (this means there is no positive autocorrelation). The conclusion is that in the regression analysis, there is no negative autocorrelation and positive autocorrelation, so autocorrelation does not occur.

- b) Heteroscedasticity test is done to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another. To detect heteroscedasticity is to regress the model with log squared residue as the dependent variable. Decision making is done if the probability value < 0.05 (significant level or $\alpha = 0.05$), then heteroscedasticity occurs, if on the contrary the probability value > 0.05 , homoscedasticity occurs.

Table 4: Heteroscedasticity Test Results

Heteroskedasticity Test: White			
F-statistic	1,024782	Prob. F(1,42)	0,3172
Obs*R-squared	1,048010	Prob. Chi-Square(1)	0,3060
Scaled explained SS	0,834001	Prob. Chi-Square(1)	0,3611

DATA ANALYSIS:

To test and analyze the effect after ensuring that the data are normally distributed and meet the criteria for homogeneity, the next steps are:

- a. Choose a model from three research models, namely, Common Effect, Fixed Effect, and Random Effects
- b. Perform model specification testing to determine the model to be used, namely the Chow Test and the Hausman Test.

The study was conducted with 2 stages of testing to determine the results of the study related to the effect of minimum wages on employment and the welfare of the people in the Ex-Residency of Besuki, East Java, Indonesia. Phase 1 is carried out to test and analyze the minimum wage on employment, and Phase 2 is carried out to test and analyze the effect of the district minimum wage on community welfare. The stages of testing carried out are as follows:

1) Test and analyze the minimum wage for employment absorption.

Panel data from this study were regressed using the Common Effect (pooled) method so that the results can be seen in Table 5 while for the results of regression with fixed-effect models can be seen in Table 6

Table 5: Results of Panel Data Regression Using Common Effects

Variable	Coefficient	Std. Error	t-value	t-prob
Exogenous variable: Y ₁				
C	4,9082.9	113011.0	4,327748	0,0001
X1	0,196945	0,114414	1,721332	0,0914
R-squared	0,055944	Mean dependent var	667459.6	
Adjusted R-squared	0,037063	S.D. dependent var	331329.6	
S.E. of regression	325131.6	Akaike info criterion	28.25955	
Sum squared resid	5,29E+12	Schwarz criterion	28,33460	
Log-likelihood	-732,7483	Hannan-Quinn criter.	28,28832	
F-statistic	2,962984	Durbin-Watson stat	0,021762	
Prob(F-statistic)	0,091373			

Table 6: Panel Data Regression Results Using Fixed Effect

Variable	Coefficient	Std. Error	t-value	t-prob
Exogenous variable: Y ₁				
C	611154.6	12556.58	48,67205	0,0000
X	0,062166	0,012742	4,878775	0,0000
R-squared	0,989315	Mean dependent var	667459,6	
Adjusted R-squared	0,988405	S.D. dependent var	331329,6	
S.E. of regression	35676.94	Akaike info criterion	23,89361	
Sum squared resid	5,98E+10	Schwarz criterion	24,08123	
Log-likelihood	-616,2338	Hannan-Quinn criter.	23,96554	
F-statistic	1087,903	Durbin-Watson stat	1,679048	
Prob(F-statistic)	0,000000			

The results of the common effect and fixed effect models have been completed, and then the chow test is performed. The test aims to choose the most appropriate model between the common effect and fixed-effect models. The results of the chow test can be seen in Table 7.

a. Chow Test

To determine the Fixed Effect or Common Effect model that is best used in estimating panel data, a Chow Test is performed. The conditions are, if the probability is ≥ 0.05 , then H₀ is accepted, meaning that the Common Effect model (pool least square) will be used. Nevertheless, if the probability value < 0.05 , then H₁ is accepted, it means using the Fixed Effect approach.

Table 7: Chow Test Results

Effect test	Statistic	d.f.	Prob.
Cross-section F	1368,510767	(3,47)	0,0000
Cross-section Chi-square	233,028953	3	0,0000

Chow test results in Table 4.14 show the cross-section probability value $F = 0.0000 < 0.05$ so that H_0 is rejected and H_1 is accepted, meaning that the model for estimating panel data, Fixed Effect is more appropriate to use compared to the Common Effect.

b. Hausman Test

Hausman Test is used to choose whether the model used is the Random effect model or the fixed effect model.

Table 8: Results of Panel Data Regression Using Random Effects

Variable	Coefficient	Std. Error	t-value	t-prob
Exogenous variable: Y_1				
C	610234,5	58970,23	10,34818	0,0000
X	0,063182	0,012741	4,959050	0,0000
R-squared	0,239974	Mean dependent var	57102,70	
Adjusted R-squared	0,224773	S.D. dependent var	50573,03	
S.E. of regression	44528,01	Akaike info criterion	9,91E+10	
Sum squared resid	15,78722	Schwarz criterion	1,013350	
Log-likelihood	0,000228	Hannan-Quinn criter.	57102,70	
F-statistic	0,239974	Durbin-Watson stat	50573,03	
Prob(F-statistic)	0,224773			

Based on the results of tests conducted, Table 9, the Prob value of 0.0000, which means that the cross-section probability value is less than the significance level $\alpha = 0.05$. Based on these results, the panel data regression is more appropriate to use is the Fixed Effect model.

c. Regression Test

To find out the magnitude of the effect of the exogenous variable minimum wage partially on employment, the t-test was used. This t-test is used to test the effect of each exogen on its endogenous variables. If the probability value t is less than 0.05, then the result is significant, this means that there is an effect of the minimum wage on employment. Partial hypothesis testing using the t-test can be seen in the following table:

Table 10: Regression Test

Variable	Coefficient	Std. Error	t-statistic	Prob
C	611154.6	12556,58	48,67205	0,0000
X	0.062166	0,012742	4,878775	0,0000
R-Squared	0.989315			
Adjusted-R Squared	0.988405			

Based on Table 10. it can be explained as follows:

The constant value of 611,154.6 states that if the minimum wage variables held constant, then employment increased by 611 154 people. A constant of 611154.6 means that

if the minimum wage does not rise or the value is zero, then the absorption of energy is 611154 people.

The regression coefficient value of X is 0.06, the t-test results show that the statistical t value is 48.67205, and the probability is 0.0000, then this constant value is significant at the alpha level (α) 0.01 confidence level of 99%. This means that if there is an increase in the minimum wage of one hundred thousand rupiahs, it will increase labor absorption by 6,2216 people. If there is a decrease in the minimum wage of one thousand rupiahs, then there is a decrease in employment by 62 people. The t-statistic value of 4.87 and Prob 0.0000, is significant at the alpha level (α) of 0.01% confidence level. That is, the minimum wage has a positive and significant effect on employment in the Besuki Ex-Residency.

Meanwhile, the R-squared value of 0.989 or 98.9% (in Table 4.17), shows that there is a close relationship between the minimum wage and employment. The percentage contribution of the independent variable minimum wage influence on the dependent variable (employment) of 98.9%. It can be explained that the variation of the independent variables used in the model (minimum wage) can explain 98.9% of the variation of the dependent variable (employment) while the remaining 1.1% is influenced or explained by other variables not included in this research model.

2) Test and analyze the effect of district minimum wages on community welfare.

Panel data regression testing uses the Common Effect (pooled) method so that the results can be seen in table 11, while the results of regression with fixed-effect models can be seen in table 12.

Table 11: Results of Panel Data Regression Using Common Effects

Variable	Coefficient	Std. Error	t-value	t-prob
Exogenous variable: Y ₃				
C	62,14879	0,819241	75,86146	0,0000
X2	2,85E-06	8,29E-07	3,435794	0,0012
R-squared	0,191000	Mean dependent var		64,72981
Adjusted R-squared	0,174820	S.D. dependent var		2,594631
S.E. of regression	2,356948	Akaike info criterion		4,590315
Sum squared resid	277,7603	Schwarz criterion		4,665363
Log-likelihood	-117,3482	Hannan-Quinn criter.		4,619086
F-statistic	11,80468	Durbin-Watson stat		0,408681
Prob(F-statistic)	0,001197			

Table 12: Results of Panel Data Regression Using Fixed Effect

Variable	Coefficient	Std. Error	t-value	t-prob
Exogenous variable: Y ₁				
C	62,54710	0,502636	124,4382	0,0000
X	2,41E-06	5,10E-07	4,724751	0,0000
R-squared	0,720800	Mean dependent var		64,72981
Adjusted R-squared	0,697038	S.D. dependent var		2,594631
S.E. of regression	1,428136	Akaike info criterion		3,641828
Sum squared resid	95,85984	Schwarz criterion		3,829448

Log-likelihood	-89,68753	Hannan-Quinn criter.	3,713757
F-statistic	30,33455	Durbin-Watson stat	1,179170
Prob(F-statistic)	0,000000		

The results of the common effect and fixed effect models have been completed, then the chow test is performed. The test aims to choose the most appropriate model between the common effect and fixed-effect models. The results of the chow test can be seen in Table 4.23.

- a. Chow Test, To determine the Fixed Effect or Common Effect model that is most appropriate to use in estimating panel data, a Chow Test is performed. The conditions are, if the probability is ≥ 0.05 , then H_0 is accepted, meaning that the Common Effect model (pool least square) will be used. Nevertheless, if the probability value < 0.05 , then H_1 is accepted, it means using the Fixed Effect approach.

Table 13: Chow Test Results

Effect test	Statistic	d.f.	Prob.
Cross-section F	29,728540	(3,47)	0,0000
Cross-section Chi-square	55,321302	3	0,0000

The Chow test results in Table 13 show the cross-section probability value $F = 0.0000 < 0.05$ so that H_0 is rejected and H_1 is accepted, meaning that the model for estimating panel data, Fixed Effect is more appropriate to use compared to the Common Effect.

- b. Hausman Test is used to choose whether the model used is the Random effect model or the fixed effect model.

Table 14: Results of Panel Data Regression Using Random Effects.

Variable	Coefficient	Std. Error	t-value	t-prob
Exogenous variable: Y_1				
C	62,53423	1,209507	51,70224	0,0000
X	2,42E-06	5,10E-07	4,754841	0,0000
R-squared	0,312139	Mean dependent var		11,46756
Adjusted R-squared	0,298382	S.D. dependent var		1,701948
S.E. of regression	1,425597	Akaike info criterion		101,6164
Sum squared resid	22,68909	Schwarz criterion		1,112482
Log-likelihood	0,000017	Hannan-Quinn criter.		11,46756
F-statistic	0,312139	Durbin-Watson stat		1,701948
Prob(F-statistic)	0,298382			

Based on the results of tests conducted, in Table 15, the Prob is 0.3645, which means that the cross-section probability value is higher than the significance level $\alpha = 0.05$. Based on these results, the more appropriate panel data regression is the Random Effect model.

Table 16: Regression Test

Variable	Coefficient	Std. Error	t-statistic	Prob
C	611154.6	12556,58	48,67205	0,0000
X	0.062166	0,012742	4,878775	0,0000
R-Squared				
		0.989315		
Adjusted-R Squared				
		0.988405		

Based on table 16 can be explained as follows:

The Constant Value of 62.54710 states that if the district minimum wage is considered constant, then the value of community welfare is 62.54 one unit. With a statistical t of 124.4382 and a probability of 0.0000, the value of this constituency is significant at the alpha level (α) 0.01 of 99% confidence level.

The regression coefficient of X is 2.41, meaning that if there is an increase in the district minimum wage of one hundred thousand rupiahs, it will increase the welfare of the community by 2.41 one unit. If there is a decrease in the district minimum wage of one hundred thousand rupiahs, then there is a decrease in people's welfare by 2.41 one unit. T-Statistic value of 4.724751 and Prob 0.0000, significant at the alpha level (α) 0.01 confidence level of 99%. That is, the minimum wage has a positive and significant effect on the welfare of the people in the Ex-Besuki Residency.

R-squared value of 0.720800 or 72.0% shows that there is a relationship between the district minimum wage and employment. The percentage contribution of the independent variable district minimum wage to the dependent variable (community welfare) was 72.0%. This means that the variation of the independent variables used in the model (district minimum wages) can 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.

CONCLUSION:

Based on the results of the study and research discussion, the following conclusions can be drawn:

1. The results of the analysis conclude that the district minimum wage has a positive and significant effect on employment in the Besuki Residency. The finding is that most companies in the Ex-Besuki Residency paid wages below the minimum wage. The minimum wage is only used as a reference in determining wages so that the minimum wage policy is less effective. The high absorption of labor is due to workers receiving wages below the minimum wage standard because there is no other choice. So whatever the amount of wages is accepted with consideration rather than unemployed means not getting wages.
2. District minimum wages affect community welfare in the Besuki Residency. The minimum wage is the ability of people's purchasing power to many basic needs. The welfare level is said to increase if there is an increase in real per capita consumption. Community welfare can be achieved with the strength of the community empowered to live it.

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