# ANALYSIS OF THE IMPACT OF UMR, HOUSEHOLD CONSUMPTION, LOCAL REVENUE ON ECONOMIC GROWTH IN BALI PROVINCE

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**ABSTRACT:** The objective of this study is to analyzethe impact that affects the economic growth of Bali Province with the data used, namely secondary data as many as 45 observations. Economic problems occurred due to the Covid-19 pandemic which caused a drastic decline in economic growth, affecting the entire regional to global economy. The method used in this research is panel data regression analysis and dominant variables. The study reveals that the minimum wage, household consumption, and local revenue collectively have a significant impact on the economic growth of Bali Province. Individually, the minimum wage has a negative and significant effect, while household consumption and local revenue have positive and significant effects on economic growth. Among these variables, local revenue emerges as the most influential factor.

*KEYWORDS :* *Regional minimum wage, household consumption, local revenue, economic growth.*

## I.　　　　　INTRODUCTION

Economic growth is the long-term increase in per capita output, reflecting improved productivity. Economic growth has an important role for a country where if growth is high and sustainable, it will create an increase in people's welfare evenly, thereby increasing per capita income which also increases the product of goods and services of a country. According to Van Den Berg (2015) Increased economic growth is also beneficial for the community where by increasing the income of the community that occurs, the ability of the community to meet their needs becomes better, this indicates that community income, as a form of welfare, is also on the rise.

Bali is an area that has experienced a very significant decline in economic growth due to the Covid-19 pandemic. This very significant decline occurred in 2020 which caused economic growth in Bali Province to experience a minus in its economic growth, but economic growth has started to decline from 2019 which in that year was the beginning of the covid-19 pandemic. According to Bank Indonesia (2020) this can happen because Bali's economy is based on tourism, therefore when tourism decreases, people's income in Bali decreases, which makes income decrease so that household consumption in Bali decreases and is accompanied by a lockdown. According to Sukirno (2006), the factors that influence economic growth are Gross Domestic Product (GDP), population, exports, taxes, natural and human resources, capital accumulation, inflation and interest rates, exchange rates, regional minimum wages, and technology used.

PAD can affect economic growth, one of which is seen from taxes. According to Widjaja (2002) PAD is one of the indicators that determine the degree of independence of a region. The greater the local revenue in a region, the lower the level of dependence of the local government on the central government. Conversely, the lower the local revenue in a region, the higher the level of dependence of the local government on the central government.

PAD is also influenced by Household Consumption. Household consumption is one of the family's economic activities to meet various needs for goods and services. Various goods and services are produced and offered to the community to meet their needs. The emergence of production activities is due to consumption activities, otherwise consumption activities exist because there are those who produce goods and services. Thus, public consumption activities will affect production behavior, which in turn affects the economy both in the long and short term. According to Dumairy (1997), an important component to assess the development of economic growth in a region evidet from pattern of public consumption expenditure. Goods produced to be used by the community to meet their needs are consumption goods. The greater the national income, the greater the consumption that will be spent.

Wages are very important for workers to fulfill the needs of themselves and their families in order to achieve their welfare. For companies, the high level of wages can cause a lot of costs to be incurred. This situation will affect the high price which will then have an impact on the decrease in the number of goods / services demanded. In the end, the company will reduce the demand for labor so that unemployment will increase.

## II. CONCEPTUAL MODEL AND HIPOTESIS

### 2.1 Conceptual Model

Figure 1. Conceptual Frame Work
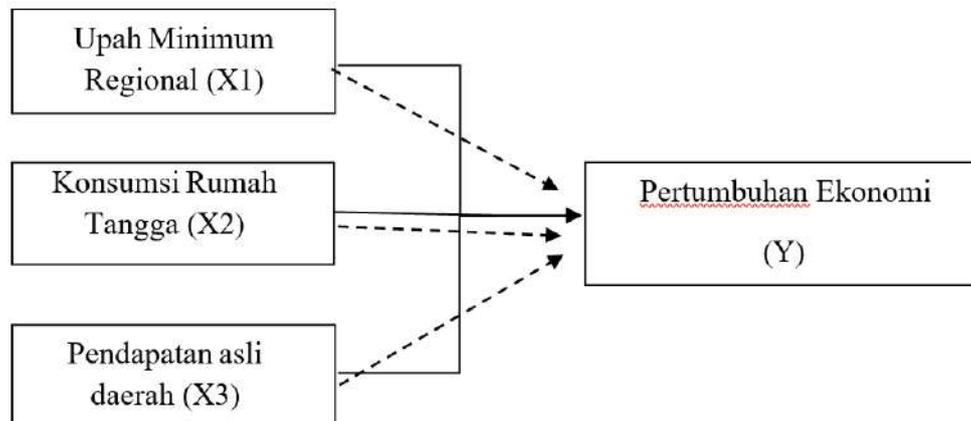


### 2.2 Hypothesis

2.2.1     Regional Minimum Wage, Household Consumption, and Regional Original Income simultaneously affect economic growth.

2.2.2     Regional Minimum Wage, Household Consumption, and Regional Original Income partially have a positive effect on economic growth.

## III. RESEARCH METHODS

In this study, the research design used is a quantitative approach method where quantitative data, namely data measured on a numerical scale (numbers), and usually uses a larger sample, and uses structured questions or observations (Kuncoro, 2003). The utilized analysis technique is panel data analysis, performed with the Eviews program. This type of analysis combines time series data with cross-section data. The time series data utilized in this studystarts from 2017 – 2021. he study focuses on 9 districts/cities in Bali, using cross-sectional data. In this study, there are a total of 45 observations, obtained by multiplying the number of years by the number of districts/cities. This study utilizes secondary data collected through the documentation method. The analysis employs panel data analysis, combining time series data with cross-sectional data, to determine the dominant variables and their influence on each other.

## IV. RESULTS AND DISCUSSION

The results of data processing in panel data regression employ three estimation methods: the Random Effect Model (REM), Common Effect Model (CEM), and Fixed Effect Model (FEM).

**Table. 1 Panel Data Estimation of Common Effect Model**

| Variabel | Koefisien | Std.Error | t-statistic | Prob. |
|---|---|---|---|---|
| Upah Minimum Regional | -0.001907 | 0.000245 | -7.772468 | 0,0000 |
| Konsumsi Rumah Tangga | 0.000470 | 0.001468 | 0.320008 | 0.7506 |
| Pendapatan Asli Daerah | 0.001471 | 0.000606 | 2.428705 | 0.0196 |

Source: Eviews 2023

**Table. 2 Panel Data Estimation of Fixed Effect Model**

| Variabel | Koefisien | Std.Error | t-statistic | Prob. |
|---|---|---|---|---|
| Upah Minimum Regional | -0.001349 | 0.000305 | -4.422975 | 0,0001 |
| Konsumsi Rumah Tangga | -0.009411 | 0.005523 | -1.703921 | 0.0978 |
| Pendapatan Asli Daerah | 0.004823 | 0.001224 | 3.940906 | 0,0004 |

Source: Eviews 2023

**Table. 3 Panel Data Estimation of Random Effect Model**

| Variabel | Koefisien | Std.Error | t-statistic | Prob. |
|---|---|---|---|---|
| Upah Minimum Regional | -0.001907 | 0.000233 | -8.175762 | 0,0000 |
| Konsumsi Rumah Tangga | 0.000470 | 0.001395 | 0.336613 | 0.7381 |
| Pendapatan Asli Daerah | 0.001471 | 0.000576 | 2.554724 | 0,0144 |

Source: Eviews 2023

To determine the appropriate estimation method, a chow test is conducted to determine which effect should be used between the common effect model or fixed effect model. By using eviews 12 software, the following results were obtained:

**Table. 4 Chow Test Result**

| EffectsTest | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-sectionF | 1.545645 | (8,33) | 0.1796 |
| Cross-sectionChi-square | 14.320659 | 8 | 0.0738 |

Source: Eviews 2023

The test results in Table 4indicates that the Cross-section Chi-square probability value is 0.0738 is exceeding the 5% free degree (0.05) so that H0 is accepted, then the selected model is the common effect model as the estimation model in the panel data.

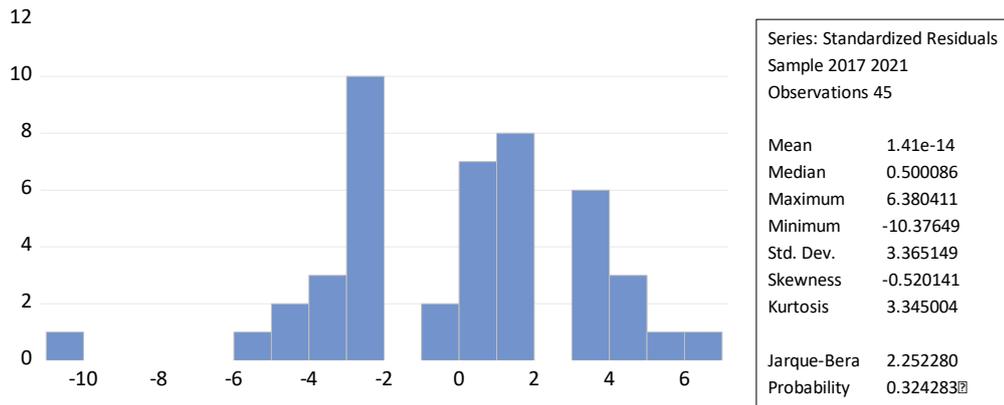**Table. 5 Langrange Multiplier Test Result**

| | Cross-section | Time. | Both |
|---|---|---|---|
| Breusch-Pagan | 2.201478 (0.1379) | 117.9220 (0.0000) | 120.1235 (0.0000) |

Source: Eviews 2023

The test results in table 5 show that the probability value used, namely the Breusch-pagan probability of 0.1379, is greater than the free degree of 5% (0.05), so that H0 is accepted, therefore the appropriate model in this study is the Common Effect model as an estimation model on panel data.

Perform the classical assumption method to ensure that the regression equation obtained has accuracy in estimation, is unbiased and consistent.

**Table. 6 Normalitas Test Result**



| | |
|---|---|
| Series: Standardized Residuals | |
| Sample 2017 2021 | |
| Observations 45 | |
| Mean | 1.41e-14 |
| Median | 0.500086 |
| Maximum | 6.380411 |
| Minimum | -10.37649 |
| Std. Dev. | 3.365149 |
| Skewness | -0.520141 |
| Kurtosis | 3.345004 |
| Jarque-Bera | 2.252280 |
| Probability | 0.324283 |

Source: Eviews 2023

In table 6 it is interpreted that the findings of theJarque Bera (JB) normality test have a probability value of 0.324283> 0.05, and the decision H0 is confirmed and H1 is invalidated, so in this study the data exhibits a normal distribution.

**Table. 7 Multikolinieritas Test Result**

| | UMR | KRT | PAD |
|---|---|---|---|
| UMR | 1.000000 | 0.527981 | 0.290791 |
| KRT | 0.527981 | 1.000000 | 0.622382 |
| PAD | 0.290791 | 0.622382 | 1.000000 |

Source: Eviews 2023

Based on the test results of table 7 of the multicollinearity test, the output indicates that the correlation coefficient between UMR and KRT is, UMR and PAD is 0.290791 <0.90, and KRT and PAD is 0.622382 <0.90. then it is said to be free from multicollinearity or the absence of multicollinearity.

**Table. 7 Multikolinieritas Test Result**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -2.735762 | 2.731676 | -1.001496 | 0.3225 |
| UMR | 0.000176 | 0.000129 | 1.364039 | 0.1800 |
| KRT | 0.000902 | 0.000771 | 1.169231 | 0.2491 |
| PAD | -0.000151 | 0.000318 | -0.475816 | 0.6367 |

Source: Eviews 2023

In table 8 based on the probability value of each independent variable has a probability value> 0.05, it can be inferred that there is no evidence of heteroscedasticity.

According to the data processing outcomes derived from the independent variables, namely the regional minimum wage, household consumption, and regional own-source revenue, which exerts a substantial impact on the dependent variable, namely the economic expansion in the province of Bali, the following equation is obtained:

$$\widehat{Y} = 45.51341 \quad - \quad 0.001907X_1 + 0.000470X_2 + 0.001471X_3$$

| | | | | |
|---|---|---|---|---|
| S($\beta$) | =(5.197060) | (0.000245)(0.001468)(0.000606) | | |
| t | =(8.757530) | (-7.772468)(0.320008)(2.428705) | | |
| Sig. | =(0.0000) | (0.0000)(0.7506) | (0.0196) | |
| $R^2$ | =0.645496 | F = 24.88480 | Sig = 0.000000 | |

The equation above indicates that the impact of the independent variables on the dependent variable can be observed through the F-statistic value in the Common Effect Model (CEM), which is 24.88480, exceeding the F-Table value of 2.83, which means rejecting the null hypothesis (H0) and accepting the alternative hypothesis (H1).This aligns with the findings obtained from the probability value of 0.0000. Because the probability value of $0.0000 < \alpha = 0.05$ (5%) so it can be said that H0 is rejected which means that it can be collected side by side with the UMR variable (X1), household consumption (X2), and regional own-source revenue (X3) have a joint or simultaneous significant effect on district/city economic growth in Bali Province in 2017-2021 with a coefficient of determination $R2 = 0.645496$ indicates that 64 percent of the variability in the dependent variable is explained by the independent variable. The remaining 36 percent is influenced by additional factors that are not accounted for in the research model.

The findings obtained from panel data regression analysis using the Common Effect Model (CEM) method on the independent variable on the dependent variable with significance at the 5% level (0.05) show the results of a partially significant effect. The regional minimum wage with a statistical probability of $0.0000 < 0.05$ and a t-count of -7.772468 greater than the t-table of 2.019 indicates rejecting the null hypothesis (H0) and accepting the alternative hypothesis (H1). It can be seen that the regression coefficient is -0.001907 which has a negative sign between the regional minimum wage variable and economic growth in Bali Province. This means that the regional minimum wage exerts a substantial and negative impacton economic growth in Bali Province. The findings of this study are consistent with the research conducted byAprilia (2022) and Noviana (2020) which state that the minimum wage exerts a substantial negative influence on economic growth, and this impact is statistically significant. The regional minimum wage can have a negative effect because an increase in the regional minimum wage will increase production costs for companies so companies are reluctant to hire more employees which can cause unemployment and inflation due to rising production costs.

Household consumption with a statistical probability of 0. 7506 > 0.05 and a t-count of 0.320008 smaller than the t-table of 2.019 means that rejecting the null hypothesis (H0) and accepting the alternative hypothesis (H1). It can be seen that the regression coefficient is 0.000470 which has a positive sign between the household consumption variable and economic growth in Bali Province. This suggests that household consumption has a favorable effect on economic expansion in Bali Province, but the effect is not statistically significant. These findings align with the research conducted by Padli (2020) which in his research, it is stated that household consumption positively influences economic growth, although the effect is not statistically significant. Household consumption has no significant effect because it can be caused by other factors.

Local revenue with a statistical probability of $0.0196 < 0.05$ and a t-count of 2.428705 greater than the t-table of 2.019 indicates rejecting the null hypothesis (H0) and accepting the alternative hypothesis (H1). It can be seen that the regression coefficient is 0.001471 which has a positive sign between the PAD variable and economic growth in Bali Province. This indicates that regional gross domestic product (PAD) has a positive and statistically significant impact on economic growth in Bali Province. These findings corroborate the research conducted by Rori (2016) and Anita (2020), affirming that local own-source revenue has a positive and significant impact on economic growth. This is because the increase in local revenue caused by taxes, levies, regionally owned business results, etc. every year will cause economic growth to increase.

In identifying the dominant variable, we examine those with significant coefficients and the largest values (farthest from zero). The coefficient for the Regional Minimum Wage is -0.852, household consumption is 0.042, and local own-source revenue is 0.289. Thus, the regional minimum wage emerges as the most dominant and influential factor among these dependent variables.

## V.          CONCLUSION

The conclusion is that the variables of regional minimum wage, household consumption, and local revenue simultaneously have a significant effect on the economic growth of districts/cities in Bali Province. The regional minimum wage partially has a negative and significant effect on district/city economic growth in Bali Province. Household consumption partially has a positive and insignificant effect on district/city economic growth in Bali Province. Local own-source revenue partially has a positive and significant effect on the economic growth of regencies/cities in Bali Province. The dominant variable is the regional minimum wage where the regional minimum wage has a Standardized Coefficient Beta value of -0.852 which is greater than the regional own-source revenue and household consumption.

Suggestions that can be given from the results that have been discussed are that the government is good at conducting skills training to reduce regional minimum wages which has a negative effect on economic growth, but it would be nice if the government evaluates the regional minimum wage and focuses more on the growth of the productive sector because the production sector has high potential to create jobs and increase productivity. The government is expected to maintain the stability of household consumption expenditure of Rp. 1,519,047 both through food and non-food consumption expenditure with a price policy of 107.66 so that later it

can continue to help contribute to increasing economic growth. The government can at least make efforts to attract people to increase the value of household consumption so that it does not decline.

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