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Analysis of the Impact of Economic Growth, District/City Minimum Wage, Government Expenditure, and Investment on Labor Absorption in the Gerbangkertosusila Region

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A B S T R A C T

This study analyzes the influence of economic growth, district/city minimum wages (UMK), government expenditure, and investment on labor absorption in the Gerbangkertosusila Area during 2014–2023. Using panel data regression in seven regions, the results show that simultaneously all variables have a significant effect on labor absorption. Partially, minimum wages and government expenditure have a significant positive effect, while economic growth and investment do not have a significant effect. These results reflect the importance of a balance between employment policies and economic development orientation in order to encourage inclusive and sustainable job creation.

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INTRODUCTION

Economic development involves sustained initiatives aimed at enhancing societal welfare by boosting production capacity, raising national income levels, and maximizing the potential of human resources. In nations still undergoing development like Indonesia one of the key obstacles is the swift rise in population, which naturally leads to a growing workforce each year. If this rise in labor supply is not matched by sufficient job creation, it can result in elevated levels of open unemployment, thereby posing a threat to continued economic progress.

Indonesia's population in 2023 was documented at 278,7 million by the Central Statistics Agency. This figure increased by 1.05% or approximately 2.92 million compared to the previous year. In line with this condition, the labor force in Indonesia also experienced significant growth. In 2023, 147.7 million Indonesians were included in the labor force. This figure increased by approximately 2.8% from 143.7 million in 2022. The increase in the labor force reflects that more individuals are ready and willing to work, thereby increasing the supply of labor in the market. However, the reality on the ground shows that the increase in labor supply is not always matched by demand from the business sector. If this situation continues, it could lead to serious problems related to rising unemployment rates.

The problem of unemployment not only affects individuals but also causes widespread social and economic burdens. Unemployment leads to the waste of human resources, reduces purchasing power, increases social inequality, and hinders economic growth(Prayogo & Hasmarini, 2022). The government can be said to be successful in implementing development if it is able to reduce unemployment and expand employment opportunities. The creation of new jobs is the key to optimally absorbing the labor force, which ultimately impacts the improvement of public welfare (Mufida et al., 2021). Therefore, job creation and increased labor absorption are important indicators in assessing the success of development in a region.

The Gerbangkertosusila region also faces similar problems related to employment issues. As the economic epicenter of East Java, the Gerbangkertosusila region is highly competitive, supported by extensive infrastructure and industrial activity. However, the reality shows that the increase in the workforce in this region has not been fully offset by stable employment. In addition, the Open Unemployment Rate across the districts and municipalities within this region remains considerably elevated. As reported by the Central Statistics Agency in 2023, Sidoarjo District part of the Gerbangkertosusila region recorded the highest Open Unemployment Rate in East Java, reaching 8,05%. Gresik Regency followed with 6,82%, and Surabaya City with 6,76%. Bangkalan Regency recorded an OUR of 6,18%, followed by Lamongan Regency at 5,46%. Meanwhile, Mojokerto City stood at 4,73%, and finally Mojokerto Regency at 4,67%. The Open Unemployment Rate figures are relatively high compared to other regions in East Java Province. Although the Gerbangkertosusila region is expected to serve as a catalyst for development in East Java, the current situation indicates that many workers remain underutilized

in the labor market, potentially hindering the progress of this development process.

Economic growth serves as a key determinant of employment dynamics. Economic growth occurs when a country experiences a continuous increase in production capacity, leading to an increase in national income and the volume of goods and services produced over time (Purba & Damanik, 2024). An upward trend in economic growth reflects the progress of a region's economy and the intensification of production activities, which may substantially enhance labor absorption due to heightened demand for workforce. The Gerbangkertosusila region showed fairly volatile economic growth during the 2014-2023 period. In 2020, the entire Gerbangkertosusila region including all its constituent districts and municipalities underwent a deceleration in economic growth as a direct consequence of the Covid-19 pandemic. Although there was a recovery in the following year, economic growth in each region slowed down again in 2023. This situation will inevitably impact the labor market. When economic growth weakens, companies tend to hold back on production expansion and reduce the hiring of new workers.

Several studies have indicated that economic growth exerts a favorable influence on employment. For example, Tahir's (2018) found a statistically significant and positive correlation between economic growth and labor absorption in South Sulawesi. This means that rising economic growth contributes to increased workforce absorption. However, research by Anjani et al. (2021) shows a different result, namely that economic growth has a negative and significant impact on employment. Despite its potential to mitigate income inequality, economic expansion has yet to effectively broaden employment opportunities.

In addition, minimum wages are another factor that also affects labor absorption. According to Macpherson in Susilowati & Wahyuni (2019), minimum wages are needed to ensure that workers' basic needs are met and to prevent employers from exploiting low-skilled workers, the majority of whom are women. According to the Central Statistics Agency, minimum wage levels in the districts and municipalities of the Gerbangkertosusila region have shown varying increases each year. During the period 2014-2023, the average rate of increase varied across areas with Gresik District recording 8,5%, Bangkalan District 7,8%, Mojokerto District 9,4%, Mojokerto City 9,1%, Surabaya City 8,5%, Sidoarjo District 8,5%, and Lamongan District 9,3%.

For companies, wages are part of production costs. A rise in wage levels tends to elevate production expenses and the prices of final goods, which my consequently suppress consumer demand for products and services. As a result, production is reduced and the need for labor also decreases (Nurichsan & Setyowati, 2023). However, on the other hand, wage hikes are regarded as a means to enhance employee productivity and elevate consumer purchasing power. Companies are encouraged to increase labor demand to meet rising production needs (Rahmah & Juliannisa, 2022).

Research by Puspita et al. (2021) shows that the minimum wage has a negative and significant impact on labor absorption in Central Java Province. This is because wage increases cause employers to pay more to purchase production factors or labor. However, this differs from the findings of Iksan et al.

(2020), these findings indicate that minimum wage policies exert a positive and statistically significant influence on labor absorption across Indonesia. Furthermore, wage growth is recognized as a contributing factor in strengthening individuals' purchasing power. As a result, companies are encouraged to increase their production, which leads to an increased need for labor.

Government expenditure as an instrument of fiscal policy, holds a critical function in fostering economic activity and infrastructure development. Effectively allocated government expenditure can increase aggregate demand, create development projects, and promote job creation. Government expenditure in the Gerbangkertosusila Region during 2014-2023 shows an upward trend. This reflects a commitment to regional economic development. The city of Surabaya recorded the highest average expenditure at Rp. 7,9 trillion, followed by Sidoarjo Regency at Rp. 4,99 trillion. Gresik Regency and Lamongan Regency came next, with Rp. 2,9 trillion and Rp. 2,7 trillion respectively. Mojokerto Regency and Bangkalan Regency recorded expenditures of around Rp. 2,3 trillion and Rp. 2,1 trillion, respectively. Meanwhile, Mojokerto City had the lowest expenditure, amounting to only Rp. 861 billion. Research conducted by Rahayu (2023) indicates that government spending exerts a notably positive influence on labor absorption within West Java Province, suggesting a direct correlation whereby an increase in public spending leads to higher levels of employment. Meanwhile, research by Pratama et al (2021) shows a different result, where government spending bears no discernible effect on labor absorption.

Furthermore, both domestic and foreign investment are expected to drive growth in productive sectors that absorb labor. Increased investment will drive economic growth, thereby expanding employment opportunities across various sectors and reducing unemployment and poverty rates (Ali et al., 2020). According to the Harrod-Domar theory, long-term investment will increase production capacity and potentially raise labor demand (Safitri & Desmintari, 2022). Investment in the Gerbangkertosusila region during the 2014-2023 period showed an unstable pattern from year to year. Surabaya City and Sidoarjo Regency were recorded as the areas with the highest investment value during that period. Meanwhile, Gresik Regency also showed a significant contribution to investment flows. Conversely, Bangkalan Regency and Mojokerto City tended to receive investments with relatively low values.

Research by Nurhasanah & Saptono (2024) reveals that investment exerts a significantly positive impact on employment levels in West Java. This is because companies' production capacity increases in line with increased investment, thereby opening up more job opportunities. However, other findings by Sabihi et al. (2021) report an adverse relationship in Manado City, where investment negatively influences employment. This situation arises because companies prefer to use advanced technology and substantial capital for production rather than hiring a large number of workers.

Based on the above description, this study aims to analyze how economic growth, minimum wages, government expenditure, and investment affect labor absorption in the Gerbangkertosusila region. This study is expected to contribute

to the formulation of future development policies and to the design of development strategies in line with the potential and challenges of the labor market in the Gerbangkertosusila region.

LITERATURE REVIEW

Definition of Labor

The workforce consists of people who are seeking or are already engaged in work activities that produce goods or services, with the provision that they meet the requirements or age limits in accordance with applicable laws and regulations and aim to earn income or wages to meet their daily needs (Purnomo, 2021). In Indonesia, the designated working age spans from 15 to 64 years. Accordingly, the workforce encompasses individuals within this productive age bracket who possess both the physical and mental capacity, as well as the willingness, to engage in economic activities producing goods or services to fulfill personal and societal needs.

Meanwhile, labor absorption describes a situation where available job opportunities have been filled by individuals in the productive age category. Kuncoro (2002) states that labor absorption refers to the number of workers who have been absorbed and are spread across various available job sectors. This process occurs in response to the need for labor. Therefore, labor absorption is also considered a form of labor demand (Ali et al., 2020).

Economics Growth

According to Sukirno, economic growth is a process of increasing production capacity in an economic system, reflected in the growth of national income. Economic growth indicates progress in economic development (Masloman, 2018). Based on Solow's neoclassical theory, the interaction between production factors will create economic dynamics that drive growth. Factors such as capital accumulation, population growth, technological advances, and output levels are interrelated in determining the rate of economic growth (Purba & Damanik, 2024).

An accelerated economic growth rate corresponds with a more rapid expansion of regional output or production. This condition indicates better prospects for regional economic development, making business and investment opportunities more promising. Sustainable economic growth drives business development, increases production, and creates a greater need for labor, thereby optimizing labor absorption (Feriyanto, 2014). This aligns with the findings of Tahir (2018), who stated that there is a positive and significant relationship between economic growth and labor absorption. The higher the economic growth, the greater the opportunities for job creation, as the business sector requires more labor to ensure smooth production processes.

Minimum Wages

The minimum wage is the lowest wage set by the government as protection for workers and is the minimum limit that employers must pay their employees. The main purpose of setting a minimum wage is to protect workers from exploitative practices and to ensure that workers receive a decent income. Given

that the cost of living varies from region to region, the minimum wage for districts/cities (UMK) is set as the wage standard applicable in a particular region in accordance with local economic conditions. The Minimum Wage for Districts/Cities (UMK) is the wage applicable in a city/district (Putri et al., 2022).

In theory, David Ricardo states that the amount of labor can increase or decrease depending on the nominal wage or market equilibrium wage. When the nominal wage is higher than the natural wage, it has the potential to encourage an increase in the amount of labor (Safitri & Desmintari, 2022). This means that if wages are higher than the cost of living, more people will want to work. However, if there is an abundance of labor, competition will increase and wages may fall back to a more balanced level or even below the natural wage. The results of the study by Puspita et al. (2021) explain that there is a negative and significant influence between the minimum wage of a regency/city and labor absorption. An upward adjustment in the minimum wage is often perceived by employers as a financial strain, as it necessitates increased expenditure on labor as a fundamental input in the production process. As a result, companies may reduce the number of workers in order to remain efficient in production.

Government Expenditure

Government expenditure is all spending undertaken by the government in order to purchase factors of production and various products, and includes spending on consumption and investment undertaken by the government (Bubi et al., 2018). Sadono Sukirno in Nahumuri (2019) said that basically government expenditure aims to maintain price stability, increase production levels, create more job opportunities, and encourage economic growth.

Based on Keynes' theory, large government expenditure can accelerate economic growth because it injects money into the national income circulation. This expenditure increases people's income, which in turn boosts purchasing power. Increased purchasing power causes aggregate demand to rise significantly. Higher demand encourages producers to increase production to meet it. As a result, producers need additional labor, so employment increases. This is supported by findings from Rahayu (2023), which prove that government expenditure has a significant positive effect on employment. Government expenditure is a way to stimulate an increase in aggregate demand, which causes producers to increase production. This heightened production subsequently drives greater labor demand, resulting in expanded employment opportunities and a rise in the number of individuals engaged in the workforce.

Investment

Investment is basically the act of allocating funds or resources currently owned with the hope of gaining profits in the future (Panelewen et al., 2020). Investment can also be defined as an activity that involves purchasing capital goods and postponing current consumption for a certain period of time in the form of assets that investors consider more efficient. The goal is that the profits obtained later will be greater than the desired level and more attractive than consuming now.

Investment serves as a critical catalyst within the framework of economic growth, functioning as a key component in advancing a nation's development trajectory. According to Keynes, one way to reduce unemployment is through increased investment. Investment activities have the potential to increase the amount of capital goods, thereby expanding production capacity and enabling growth in the output of goods and services in the future. This indirectly attracts an increase in the number of workers and increases per capita income and encourages community welfare. Meilasari (2020) in her research stated that investment has a positive and significant influence on labor absorption. The high value of realized investment has also increased the number of workers absorbed.

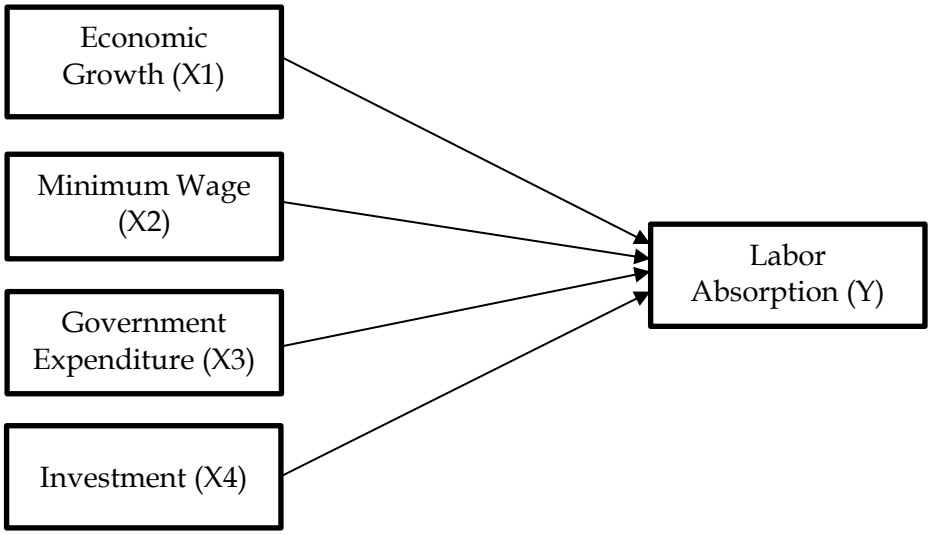

Figure 1. Conceptual Framework

METHODOLOGY

The research approach utilizes a quantitative approach as explained by Hardani et al (2020), hich emphasizes the use of numerical data throughout the stages of data collection, analysis, and presentation. The approach is directed towards hypothesis testing through the application of statistical techniques. The dependent variable in this study is labor absorption, while the independent variables are economic growth, district/city minimum wages, government expenditure, and investment.

The analysis used in this study is panel data regression analysis and is supported by Eviews 12 software. Panel data regression represents a methodological approach that integrates both time series and cross sectional data (Gujarati & Porter, 2012). Through this technique, the study examines the effects of independent variables on a dependent variable across seven Regencies/Cities within the Gerbangkertosusila region over the periode from 2014-2023. The following is the regression model equation in this study:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + e_{it}$$

Description:

Y = Absorption of Labor (People)

β0 = Constant

β1, β2, β3, β4 = Regression Coefficient
X1 = Economic Growth (%)
X2 = Minimum Wage of Regency/City (Rupiah)
X3 = Government Expenditure (Million Rupiah)
X4 = Investment (Million Rupiah)
e = Error term
i = Number of observations
t = Time

To achieve the research objectives, the research stages begin with a panel data estimation approach that includes three main models, namely the Common Effect Model, Fixed Effect Model, and Random Effect Model. Then a model selection test will be carried out to select the best model including the Chow Test, Hausman Test, and Lagrange Multiplier Test. After the best model to be used is found, it is continued with the classical assumption test. According to Gujarati in Basuki (2021), the application of the Ordinary Least Squares (OLS) method in linear regression does not require the full range of classical assumption test particularly when working with secondary data, which tend to be pre processed and structurally sound. Therefore, the classical assumption tests carried out are the multicollinearity test and the heteroscedasticity test. And continued with a hypothesis test that includes the coefficient of determination test, F test, and t test.

RESEARCH RESULT

Model Selection Test

1. Chow Test

The Chow test is conducted to test the suitability of the Common Effect Model with the Fixed Effect Model in panel data analysis. The implementation of the Chow test is formulated with a hypothesis as the basis for testing, namely as follows:

H0 : Common Effect Model
H1 : Fixed Effect Model

With the assumption:

If p-value > α (5%), then H0 is accepted
If p-value < α (5%), then H0 is rejected

Table 1. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	230.579675	(6,59)	0.0000
Cross-section Chi-square	223.760624	6	0.0000

Source: Processed Data, 2025

Based on the regression results of the Chow Test, the Cross-section Chi-square yields a probability value of 0.0000 or below 0,05. This indicates the rejection of the null hypothesis (H0) and the acceptance of the alternative

hypothesis (H1), suggesting that the Fixed Effect Model is more suitable than the Common Effect Model. Subsequently, the Hausman Test will be conducted.

2. Hausman Test

In panel data analysis, the Hausman Test is performed to determine the suitability of the model between the Fixed Effect Model and the Random Effect Model. There are hypotheses used in the Hausman test formulated as follows:

H0 : Random Effect Model

H1 : Fixed Effect Model

Assuming:

If p-value> α (5%), then H0 is accepted

If p-value <α (5%), then H0 is rejected

Table 2. Hausman Test Result

Test Summary	Chi-Sq.Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	28.065793	4	0.0000

Source: Processed Data, 2025

The results of the Hausman Test indicate a Cross-section random probability value of 0.0000, which is below the 0,05-significance level signifying the rejection of the null hypothesis (H0) and acceptance of the alternative hypothesis (H1). This confirms that the Fixed Effect Model is more suitable than the Random Effect Model. Accordingly, both the Chow Test and Hausman Test support the Fixed Effect Model (FEM) as the most appropriate choice for this study. As a result, the Lagrange Multiplier was not conducted, since FEM has been firmly established as the optimal model.

Classical Assumption Test

1. Multicollinearity Test

The multicollinearity test aims to identify the presence of intercorrelation among the independent variables within a regression framework. When the variables do not have a bound correlation, the regression model can be considered good and does not contain multicollinearity problems.

Table 3. Multicollinearity Test Result

	X1	X2	X3	X4
X1	1.000000	0.048257	0.112587	0.081848
X2	0.048257	1.000000	0.556778	0.605226
X3	0.112587	0.556778	1.000000	0.680569
X4	0.081848	0.605226	0.680569	1.000000

Source: Processed Data, 2025

The findings from the multicollinearity test indicate that none of the four independent variables exhibit a correlation coefficient exceeding the threshold of

0,8. This outcome the absence of multicollinearity issues within the regression model, thereby affirming the model's validity in this regard.

2. Heteroscedasticity Test

The purpose of the heteroscedasticity test is to assess whether the residuals in a regression model exhibit non constant variance. To identify signs of heteroscedasticity, one commonly employed technique is the Glejser test.

Table 4. Heteroscedasticity Test Result

Variable	**Prob.**
X1	0.6303
X2	0.9428
X3	0.9317
X4	0.8120

Source: Processed Data, 2025

Based on the data analysis result presented in Table 4, the probability values for all independent variables exceed the significance level (α = 0,05). This outcome suggests that the regression model does not exhibit symptoms of heteroscedasticity.

Panel Data Regression Equation

Table 5. Panel Data Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	512511.7	23575.60	21.73907	0.0000
X1	2237.673	1348.993	1.658773	0.1025
X2	0.036204	0.009361	3.867447	0.0003
X3	0.023454	0.010534	2.226375	0.0298
X4	- 0.001166	0.000808	-1.443580	0.1541

Source: Processed Data, 2025

According to the results of the regression analysis in table 5, a model was obtained multiple linear regression equation as follows:

Yit = 512511,7 + 2237,67X1it + 0,036204X2it + 0,023454X3it – 0,001166X4it + eit

From the regression equation, it can be explained as follows:

1. Constant = 512511.7

This means that Economic Growth (X1), Minimum Wage of Regency/City (X2), Government Expenditure (X3), Investment (X4) are considered constant, then Labor Absorption (Y) increases by 512511 people.

2. Regression Coefficient X1 = 2237.67
   This means that Economic Growth (X1) has a positive effect on Labor Absorption (Y), so if Economic Growth increases by 1 percent, Labor Absorption will also increase by 2,237 people, assuming other variables are constant.
3. Regression Coefficient X2 = 0.036204
   This means that the Minimum Wage of Regency/City (X2) has a positive effect on Labor Absorption (Y), so if the Minimum Wage of Regency/City increases by 1 rupiah, Labor Absorption will also increase by 0.036204 people, assuming that other variables are constant.
4. Regression Coefficient X3 = 0.023454
   This means that Government Expenditure (X3) has a positive effect on Labor Absorption (Y), so if Government Expenditure increases by 1 rupiah, Labor Absorption will also increase by 0.023454 people, assuming that other variables are constant.
5. Regression Coefficient X4 = - 0.001166
   This means that Investment (X4) has a negative effect on Labor Absorption (Y) so that if Investment increases by 1 rupiah, Labor Absorption will decrease by -0.001166 people assuming other variables are constant.

Coefficient of Determination Test (R^2)

Table 6. Coefficient of Determination Test Result

R-squared	0.995551
Adjusted R-squared	0.994796
S.E. of regression	29466.78

Source: Processed Data, 2025

From the results of data processing in the table above, it can be seen that the Adjusted R-squared value is 0.994796. This indicates that the independent variables formed by Economic Growth, Regency/City Minimum Wage, Government Expenditure, and Investment are able to explain the dependent variable, namely Labor Absorption, by 99.47%. While the remaining 0.53% is explained by other variables outside the research variables.

F-Test (Simultaneous Test)

Table 7. F Test Result

F-statistic	1320.103

Prob (F-statistic)	0.000000

Source: Processed Data, 2025

From the results of the F test, the Fcount value is 1320.103 while the Ftable value is obtained through the F table, namely at df 1 = k-1 or 5-1 = 4 and df 2 = n-k or 70-5 = 65 (k is the number of variables). With a significance of 0.05, the Ftable result is 2.51. Thus, Fcount > Ftable (1320.103> 2.51) and the Prob value (F-statistic) is 0.000000 or below α = 0.05 (0.000000 < 0.05). So it can be concluded that H0 is rejected and H1 is accepted, all independent variables, namely Economic Growth, Regency/City Minimum Wages, Government Expenditure, and Investment have a simultaneous effect on the dependent variable, namely Labor Absorption in the Gerbangkertosusila Area in the 2014-2023 period.

t-Test (Partial Test)

Table 8. t-Test Result

Variable	t-Statistic	Prob.
C	21.73907	0.0000
X1	1.658773	0.1025
X2	3.867447	0.0003
X3	2.226375	0.0298
X4	-1.443580	0.1541

Source: Processed Data, 2025

Based on the results of the t-test shown in table 8, the following probabilities are obtained for each research variable:

1. The results of the t-test of economic growth on labor absorption show that the significance value is 0.1025. The significance level of 0.1025 > 0.05 so that on the basis of this comparison it means that economic growth does not have a significant effect on labor absorption.
2. The results of the t-test of the Regency/City Minimum Wage (UMK) on Labor Absorption show that the significance value is 0.0003. The significance level of 0.0003 < 0.05, so based on this comparison, it means that the Regency/City Minimum Wage variable has a significant influence on Labor Absorption.
3. The results of the t-test of Government Expenditure on Labor Absorption show that the significance value is 0.0298. The significance level of 0.0298 < 0.05 so that based on the comparison, it means that Government Expenditure has a significant effect on Labor Absorption.
4. The results of the t-test of Investment on Labor Absorption show that the significance value is 0.1541. The level of significance is 0.1541 > 0.05 so that

based on this comparison, it means that Investment does not have a significant effect on Labor Absorption.

DISCUSSION

Analysis of the impact of economic growth on labor absorption

The empirical test conducted indicate that economic growth did not influence labor absorption in the Gerbangkertosusila region during the 2014-2023 period. The findings reveal that changes in economic growth neither enhanced nor reduced labor absorption within the region. Although the economic growth variable shows a positive correlation, the hypothesis asserting that economic growth has a positive and significant impact on labor absorption is ultimately rejected.

Gerbangkertosusila's economic structure, which is heavily centered around capital intensive sectors like the processing industry, results in economic growth that does not necessarily translate into higher labor absorption. Areas such as Surabaya and Mojokerto tend to move in the trade sector, while Lamongan and Bangkalan still depend on agriculture. Industrial areas such as Sidoarjo, Gresik, and Mojokerto produce high GRDP but the use of technology reduces the need for direct labor. So that labor absorption is less than optimal. This study's findings are consistent with those of Wiasih & Karmini (2021) which indicate that economic growth does not influence labor absorption in the regencies and cities of Bali Province. Rapid economic growth does not necessarily result in an expansion of employment opportunities.

Analysis of the impact of minimum wages on labor absorption

The result of the conducted test demonstrate that district and city minimum wage have influenced labor absorption within the Gerbangkertosusila region during period 2014-2023. Empirical evidence indicates that minimum wage policies at the regional level contribute positively to the enhancement of labor absorption. The minimum wage variable exhibits a positive relational direction. Accordingly, the hypothesis asserting a positive and significant effect of district/city minimum wage on labor absorption is supported and accepted.

The majority of people in the Gerbangkertosusila Regency/City work in the formal sector as laborers, employees, or civil servants, especially in areas such as Surabaya, Gresik, and Sidoarjo which depend on the industrial and service sectors. However, this condition is different in Bangkalan Regency and Lamongan Regency where the informal sector, especially agriculture, still dominates, which makes the minimum wage in this area smaller than other areas. Because the formal sector follows the minimum wage policy, changes in wages will directly affect people's purchasing power. So that the increase in the minimum wage by the government has the potential to encourage consumption growth, increase economic activity, and strengthen the stability of the labor market in the area.

According to Keynes' efficiency wage theory, companies tend to provide wages above market prices in order to encourage increased worker productivity. Therefore, it is likely that wages will not decrease because the decrease will reduce people's income. This will have an impact on decreasing people's

purchasing power (Rahmah & Juliannisa, 2022). The results of this study are in line with the research of Iksan et al (2020), wages are considered to be able to encourage workers to be more productive so as to create more goods or services which will later benefit the company. Then the findings of this study are also supported by Rahayu's research (2023) which shows the results that UMK has a positive and significant effect on labor absorption in West Java Province.

Analysis of the impact of government expenditure on labor absorption

Based on the tests that have been carried out, there is an influence of government spending on Labor Absorption in the Gerbangkertosusila Area in 2014-2023, the results of the study show that government spending has an impact on increasing labor absorption in the Gerbangkertosusila Area. The expenditure variable has a positive relationship direction. So the hypothesis that states that government spending has a positive and significant effect on labor absorption is accepted.

In recent years, capital expenditure by the government in the Regency/City of the Gerbangkertosusila Area has experienced an increasing trend that is heading in a positive direction. These funds are generally focused on the development of infrastructure and industrial facilities, which contribute greatly to creating a more efficient and productive economic environment. The impact can be seen in the increasing number of industries and the increasing ability of the region to absorb local labor.

The results of this study are in line with the findings of Noviendri (2020) which prove that government spending has a significant positive effect on labor absorption. The higher the government spending, the more labor absorption will increase. According to Keynes in Wahyudi (2020), government spending plays an important role in driving aggregate demand, because increasing the spending budget can increase people's income and purchasing power. As a result, consumption increases and triggers economic growth and wider employment absorption.

Analysis of the impact of investment on labor absorption

Based on the tests that have been conducted, there is no effect of investment on Labor Absorption in the Gerbangkertosusila Area in 2014-2023, the results of the study show that investment does not have an impact on the increase or decrease in labor absorption in the Gerbangkertosusila Area. The investment variable has a negative relationship direction. So the hypothesis that investment has a significant effect on labor absorption is rejected.

During the period 2014 to 2023, the investment pattern in the Gerbangkertosusila area showed instability, which reflects the investment climate conditions that are not yet fully conducive. When investment does not run consistently, companies tend to take cautious steps, including in decisions to expand or recruit workers. As a result, the level of labor absorption is not optimal. In addition, the direction of investment is also an important factor. Many investments go into capital-intensive sectors such as mining and processing industries, especially in areas such as Gresik Regency. These sectors generally rely more on technology and machines than direct labor, so even though these

sectors drive economic growth and create large investment values, their contribution to job creation is relatively low. The use of technology that replaces the role of humans has limited job opportunities for the local community.

The results of this study are supported by the research of Iksan et al (2020) with the results that investment has a negative and insignificant effect on labor absorption in Indonesia. Investments that focus more on the procurement of technology and capital in the form of production equipment make the production process more efficient, but this will reduce the need for labor.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the test results, the following conclusions were obtained:

1. Economic growth does not have a significant effect on labor absorption. This occurs because the growth of GRDP is supported more by the capital-intensive sector, not labor-intensive, so that the increase in output is not followed by an increase in the workforce.
2. The Regency/City Minimum Wage has a positive and significant effect on labor absorption. The increase in wages increases people's purchasing power, encourages consumption, and ultimately increases the demand for goods and services. This makes companies increase production and absorb more labor.
3. Government expenditure has a positive and significant effect on labor absorption. When government expenditure is directed to the productive sector, job opportunities are wider and labor absorption increases.
4. Investment does not have a significant effect on labor absorption. This is because most investment goes to the capital-intensive sector, not labor-intensive, so it does not have a direct impact on increasing the workforce.

Recomendation

Based on the conclusion, the researcher hopes that the government in the Gerbangkertosusila area will be more proactive in optimizing human resources through job training, as well as expanding employment opportunities along with the increase in the workforce, for example by facilitating business permits for new entrepreneurs. The government is also advised to maintain a balance in minimum wage regulations to protect workers while encouraging consumption and economic growth. In addition, investment strategies should be focused on labor-intensive sectors so that incoming investment not only increases GRDP, but also increases real labor absorption in various regions.

ADVANCED RESEARCH

For further researchers, it is expected to use other variables that affect labor absorption. This research is certainly far from perfect, so further development is needed. The scope of the study should also be expanded by considering the actual conditions that are currently taking place, so that the research results can provide a more relevant and in-depth contribution to the sustainability of future studies.

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