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Analysis of Factors Affecting Income Inequality in Indonesia From 2016 - 2021

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ABSTRACT

The purpose of this research is to look at the impact of human resources, minimum salaries, infrastructure, and investment on income disparity in Indonesia from 2010 to 2022. This study employs quantitative descriptive analysis with secondary data spanning the years 2010 to 2022. Data from the CSA and the Ministry of Finance are used in this analysis. Secondary data comprises economic data, particularly GDP figures, as well as scientific papers, books, and journals. Because of its quantitative nature, structural equation modeling (SEM) is applied (combining time series and cross section). This study's model has gone through construction selection and testing to become an estimating model. SEM can be used to determine the relationship between human resources, minimum wages, infrastructure, and investment, and employment, economic growth, and income. The findings indicate that all variables have a negative and significant effect on income inequality. This suggests that improving human resources, the minimum wage, infrastructure, and investment will be followed by a reduction in income inequality in Indonesia.

Keywords: Human Resources, Minimum Wage, Infrastructure, Investment, Income Inequality

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INTRODUCTION

The growth of Indonesia has been ongoing for decades. In terms of economic progress, the Indonesian populace faces many obstacles. This development must be tailored to the implementation site's specifics. The objective of economic growth is to achieve societal prosperity. According to Todaro (2000), development initiatives are not only about generating rapid economic growth, but also about eliminating or lowering economic inequities and increasing employment. It is anticipated that the contribution of the industrial and service sectors will expand, as well as the educational attainment and skill of the labor force. Economic expansion will follow these enhancements (BPS 2021).

Mulyadi (2003) says that, according to the classical approach, humans are the most influential production variable on a nation's wealth. Therefore, nature (land) is devoid of value if not handled by human resources. According to Adam Smith (1729-1790) (Atmanti, 2017), economic growth can only commence after the appropriate allocation of human resources. To maintain economic growth, there will be a demand for new physical capital, which in turn necessitates the efficient deployment of human resources. In addition, Classical Economists believed in a market-driven system that continually seeks balance or equilibrium. If the equation is correct, all resources, including labor, will be utilized to their fullest extent. Consequently, there is no unemployment due to the market system (there are jobs). Rather than live in poverty, unemployed individuals are willing to accept lesser earnings to attract more companies.

Minimum wages, employment, and human resource development (HR) are crucial to eradicating inequality when it comes to promoting human resource development. The association between education and employment can be demonstrated through human resources. Solow's (1970) famous theory holds that developing nations require simply an increase in the accumulation of labor and human resources with the efficient allocation of their utilization. The relationship between wages and the availability of human resources and employment is close. According to Simanjuntak, an increase in the minimum wage has a significant impact on a company's ability to hire highly educated, highly productive, and well-compensated workers (1992). Population and educational attainment gains are related to increases in human capital, the federal minimum wage, and total employment.

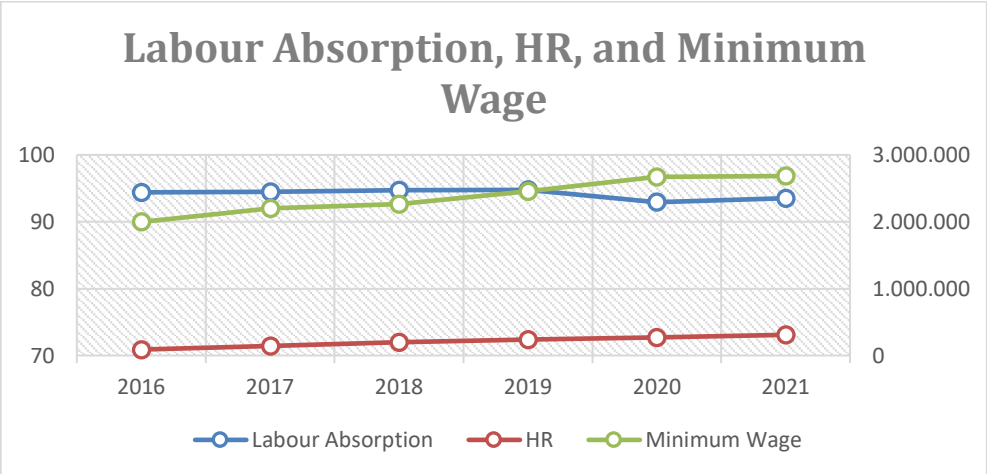

Figure 1 Comparison of Human Resources, Minimum Wage and Employment in Indonesia

Source Figure 1: BPS 2021 (researcher)

It may be noted that the number of educated (schooled) individuals increases annually, along with a rise in the minimum wage. Since the covid-19 pandemic in 2020, human resources have declined; however, they will rebound the following year as a result of the Covid-19 response. Theoretically, minimum wage and labor expenses are correlated. In the labor market, perfect competition, monopsony, and monopoly will all be utilized. In a truly competitive market, there is no labor absorption if resources are distributed properly (Nurlina, 2009). In a monopolistic market, just one employer exists. Consequently, businesses are compelled to boost salaries whenever they engage a new employee. Businesses functioning in a monopolistic market environment may only pay wages determined by employees.

According to Ahluwalia, increasing one's education and ability to work can affect income distribution (1976). This has resulted in a shift from individuals with low earnings due to a lack of talent to those with high earnings due to their skills. As a result of this transformation, income levels have increased. The theory concerning wages is the efficiency wage theory, or the efficiency wage, which specifies the minimum wage at which workers can enhance their output. Empirical evidence from the Smeru Research Institute and the Manpower Directorate of Bappenas reveals a different aspect of this neoclassical economic theory. A recent study found that 40% of these small enterprises have a negative link with formal sector employment in urban regions.

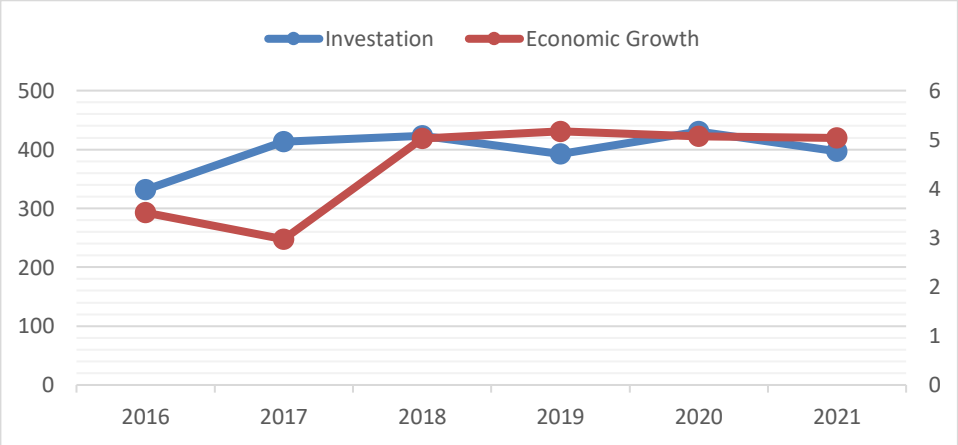

Figure 2 Comparison of Values of Investation and Economic Growth
Source Figure 2: BPS 2021 (researcher)

In addition, a region must have access to Increasing regional infrastructure expenditures is one technique for boosting the GDP. The rate of economic growth, specifically the growth rate of Gross Domestic Product, is one of the indicators that may be used to measure economic growth (GDP). In addition, according to Todaro (2000), the distribution of money can be quantified using two primary indices: personal income distribution and individual functional distribution for various total goals. Figure 2 depicts the relationship between Infrastructure, Investment, and Economic Growth in Indonesia.

As a result of higher capital concentration and centralization, financial power increases, according to Hilferding (1981). Monopolists join with banks that provide financing to get investment capital, bringing industrial and banking capital under the jurisdiction of the latter bank. Similar to a financial manager controlling a stock float, the issuance of stock creates substantial profits. Benabou (1996), who investigated the connection between economic growth and individual capital investment, reached the same conclusion. Benabou observes that in imperfect capital markets, where capital is limited and income

inequality is great enough that few individuals can access it, the degree of investment across the population will likewise be unequal.

Income inequality is a variable with multiple functions, and given the various types of income disparity, there is no consensus on how to operate. There are numerous methods for assessing inequality, including the Lorenz curve, the Gini coefficient, the World Bank Criteria, and the Williamson Index. However, the most frequently acknowledged metric for representing and measuring income disparity is the Gini coefficient.

Essentially, progress cannot eradicate regional disparity. Inequality is increasing as the principal regional industries are only concentrated in the regions (Soenandar, 2005). To avoid falling too far behind adjacent communities, the existence of gaps can push impoverished regions to improve their quality of life. In addition, these regions will compete to enhance their quality of life, thus this disparity will have a positive effect. In addition to having a positive effect, growing regional inequality also has a detrimental effect. These negative repercussions, such as economic inefficiency, can destroy societal stability and cohesion, and excessive inequality is typically perceived as an absence of justice (Michael P Todaro, 2004). This inequality also results in labor migration and monetary transfers from poor to developed regions (Cherodian & Thirlwall, 2013).

Indonesia is a developing nation that has failed to attain economic stability. The unequal distribution of wealth is one of them. Consequently, Indonesia's economic growth prospects are fairly favorable, although, despite a substantial increase in employment, income distribution in Indonesia remains unequal. In conjunction with the recession brought on by Covid-19, the Gini Ratio reveals a concerning degree of inequality. This is evident from the graph comparing economic growth (GDP) and employment, as well as the Gini index, which represents the income distribution.

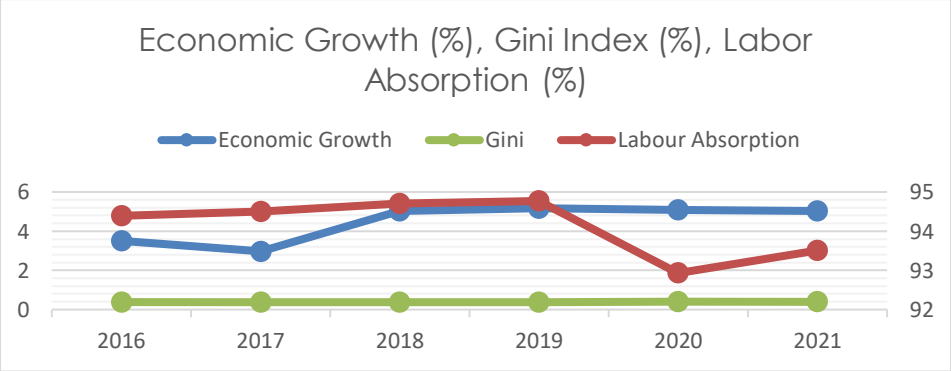

Figure 2 Comparison of Economic Growth/GDP, Employment and Income Inequality (Gini Ratio) in Indonesia for the 2010-2021 Period

Source Figure 2 : BPS 2021 (researcher)

As shown in the graph above, which compares economic growth and income distribution in Indonesia, the Gini index indicates that income distribution in Indonesia is relatively unequal, although GDP-based economic development in Indonesia is quite strong. This indirectly explains why there is income inequality in Indonesia. The influence of income-adjustment regulations, such as the minimum wage, has sparked inflation in recent years, changing the distribution of income in Indonesia, which can have repercussions on employment.

According to Badriah (2019), income disparities and economic growth are created by the IT industry's above-average incomes, which are much greater than wages in other areas, such as agriculture, industry, etc. Moreover, the income difference is growing. Pangemanan (2001) investigated the elements that affect income distribution. The analysis reveals a significant increase in the share of the population that decreases the distribution of household income, followed by an increase in the distribution of household income among industrially employed family members. In contrast, as economic growth continues to expand, the distribution of household income grows more unequal. Coto (2006) examined the impact of economic growth, industrial production contribution, minimum wage, and education level on income distribution. Education for workers has beneficial and significant effects. Foreign investment flows are directly associated with economic growth, according to Kunle, Adeleke, Olowe, and Oluwafolakemi (2014). A robust economic boom may suggest investor interest. This demonstrates that private investment fuels economic expansion.

The majority of information gathered from the Indonesian Central Bureau of Statistics pertains to human resources, minimum salaries, investment, and employment. The pace of economic growth in Indonesia fluctuates annually, as does the income distribution, as measured by the Gini ratio. The Gini ratio has declined during the past year, although not due to the government's effectiveness in eliminating inequality. On the other hand, according to BPS figures, the Gini ratio has declined somewhat as a result of the global economic slowdown reducing the expenditure of the upper 20 percent of the middle class. In addition, forty percent of the middle class boosted their spending due to the growth of creative economic activities and small and medium-sized businesses (SMEs). Idealistically, the Gini ratio will decline as a result of the accelerated economic growth of the lower middle class at a faster rate than the actual level of inequality in Indonesia, which is still relatively high. Lower-middle-income countries transitioning to upper-middle-income countries should have a Gini ratio between 0.28 and 0.33, however, Indonesia's Gini ratio varies between 0.38 and 0.41. According to inequality theory, income inequality originated in 1955 when Simon Kuznet introduced the "inverted U" notion. Kuznets (1955) asserts that at the onset of development, the distribution of income would be more unequal, but it will become more equitable as development progresses. In actuality, inequality continues after a certain level of economic development. Where the theory in Indonesia does not meet the reality.

This indicates that the distribution of income from the group with the highest income to the group with the lowest income is the result of an imbalance between the variables that are connected. Therefore, the authors analyzed the topic of income distribution discrepancy in Indonesia using the SEM model of panel data to examine HR, Minimum Wage and the level of investment (combining time series and cross-section).

LITERATURE REVIEW

Human Resources

According to Hasibuan (2003), human resources consist of the mental and physical capabilities of each individual. Human resources are the creation of formal processes inside an organization to ensure the effective application of human knowledge to achieve organizational or corporate objectives (Mathis & Jackson, 2006). Mulyadi (2003) argues, according to the classical perspective, that humans are the primary productive force that determines the success of a nation. Additionally, human resources are appraised according to their level of education. Human resources are the owners of service-

providing production components and play a crucial role in a sustainable production process. Due to this and the sacrifices made by the personnel, they are entitled to compensation from the corporation.

Minimum Wage

According to Sumarsono (2003), the minimum wage is determined to be the regional minimum wage for the subsector. In this manner, the minimum salary is comprised of base pay in addition to allowances. The minimal basic wage, nevertheless, is the wage that is regulated regionally, sectorally, and sub-sectorally, whereas the basic wage is governed regionally, sectorally, and sub-sectorally. It is established in government rules that simply the minimum salary does not include benefits. According to Case & Fair (2007), the minimum wage is the lowest compensation that companies are legally permitted to pay employees. According to economic theory, wages are remuneration for the physical and mental services provided to employers by workers. Therefore, the economic theory makes no distinction between permanent and temporary employee compensation (Sulistiawati, 2012). Consequently, minimum wages are not merely a tool for protecting low-wage workers, but also a "middle-class concern" (Levin-Waldman, 2011). If the goal is placed too low, it will probably be missed. When the average wage is excessively high, it can discourage companies from hiring low-skilled workers or encourage them to hire them informally (ILO, 2011).

Consequently, the earnings of workers are divided into two categories:

1. Workers who earn nominal pay in the form of monetary remuneration consistently.
2. Real Wage: The nominal income earned by workers based on the number of products and services obtained in a transaction.

Investment

Investment, or what is most commonly referred to as an investment, has a dual meaning for economics. According to Nanga (2005), investment is the entire amount spent on the acquisition of raw materials, machinery, manufacturing equipment, and other capital equipment required for the production process. According to the Harrod-Domar investment hypothesis, investment has a substantial impact on economic growth. By raising funds, one can get investing capital. According to Harrod-Domar, capital formation is not only viewed as an expenditure that can boost the economy's ability to acquire goods and services, but it can also increase the community's effective demand. In summary, investment is a net increase in the current capital stock (net add to the existing capital stock). Investments are sometimes referred to as capital formation or capital accumulation (Nanga, 2005).

According to Sukirno (2004), the following factors can influence investment:

1. The interest rate, which governs the sort of investment that delivers rewards for capital owners or investors, is the interest rate.
2. Anticipated rate of investment return Forecasts of future profits can offer investors an overview of the types of companies that may be conducted in the future and the amount of investment required to acquire the additional capital goods required.
3. The level of the national income and its fluctuations the increase in national income will improve the level of people's income, the purchasing power of the people, and the overall aggregate demand until it can stimulate the expansion of another investment (induced investment).
4. Profits earned by the company urge investors to provide a share of the profits obtained for future investments; the bigger the profits obtained by the company, the greater the encouragement.

5. Political scenario, Political stability is a criterion for investors, particularly foreign investors, when deciding where to invest capital. Considering that investment requires a relatively lengthy amount of time to return the invested capital and generate a profit, every investor anticipates long-term political stability.
6. Technological advancement, the more investors engage in renewal activities in response to the discovery of new technologies or innovations, the higher the level of investment will be.

Economic Growth

According to Tarigan (2005), regional economic growth is an increase in income from every community in the region, when an increase in all this added value occurs. According to Sukirno (2006), economic expansion does not inevitably lead to economic development and a rise in the standard of living of the populace. This is because economic expansion and population expansion occur concurrently. According to Kuznets (1955), the distribution of income tends to worsen in the early phases of economic expansion but improves in later stages. According to Ravalion and Chen (1997, referenced in Waluyo, 2006), the association between economic development and changes in inequality is substantial and negative. The results of this study demonstrate that a rise in economic growth can lessen income gaps rather than exacerbate them. According to Todaro & Smith (2006) there are three main factors in economic growth, namely:

1. Capital consists of all investments in the form of land (land), fiscal equipment, and human resources. Capital accumulation happens when a portion of current income is saved and subsequently invested to increase future production. This investment is complemented by investments in infrastructure, such as roads, electricity, clean water, communication facilities, and sanitary facilities, to facilitate the activation of a productive economy.
2. Population and workforce expansion. Population growth and other factors associated with the rise in the labor force have historically been viewed as favorable economic growth drivers. In other words, the larger the labor force, the more productive it will be, and the more residents there are, the greater the potential of the home market.
3. Technological progress, technological progress is created by technology in new ways, while conventional jobs are performed in an enhanced manner using the old methods.

Employment

Labor absorption refers to the number of working-age individuals (15-64) who are job seekers, employed but temporarily unemployed, or unemployed (Hidayat, 2014). In the meantime, according to Law No. 13 of 2003 respecting Manpower, Manpower is defined as every individual who is capable of performing labor to acquire products or services for his or personal use or the community. Employment refers to the quantity of labor a firm absorbs. Given that the capacity of each business unit varies, the absorption capacity may vary from one business unit to the next (Indayati I & Djumhariyati, 2010). If capital and total expenditures are not included, minimum wage rises might have a detrimental effect on employment (Neumark, Salas, & Wascher, 2014). The corporation opted not to set the minimum wage until it had hired personnel and renegotiated lower rates based on the type of employment, including the usage of replacement workers, unemployed individuals, and contract workers (Cahuc, Marque, & Wasmer, 2008). Indonesia aims to absorb labor to reduce unemployment.

Income Inequality

Inequality in the distribution of a community's income is the condition of income inequality. This disparity is defined by the degree of equality. This inequality is caused by the level of development, ethnic diversity, tyranny, and a government that does not respect property rights (Glaesser, 2006). According to Alessina and Rodrik (1994) from (Haijiji, 2010), wealth inequality might inhibit economic development. This occurs because income inequality necessitates expensive redistribution schemes. Geographical income disparities can result from unequal growth and regional restrictions, as well as the propensity for development to be concentrated in developed regions. This resulted in a pattern of discrepancy in regional income distribution and became one of the primary causes of the escalating inequality of regional income distribution (Retnosari, 2006). In Indonesia, where inequality tends to expand from year to year, the decline in poverty and the rise in economic growth are not accompanied by a reduction in income distribution inequality. Inequality in the distribution of income between high and low-income groups is a significant issue frequently confronted by emerging nations (Tambunan, 2001).

Conceptual Framework

The conceptual framework built in this study as follows:

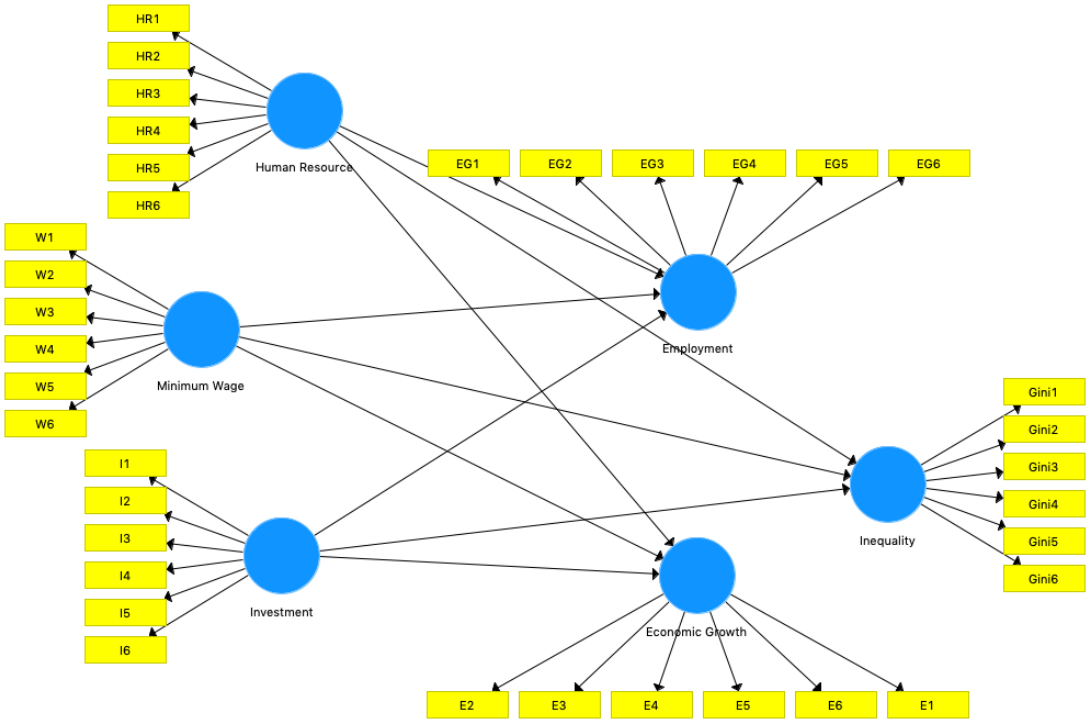

Figure 3 Theoritical Framework

It can be explained that in figure 4, first, the researcher will examine how the free variables (exogenous) hr (X1), the minimum wage variable (X2), and the investment variable (X3) and two intervening variables of labor absorption (Y1) and economic growth (Y2) and one endogenous varibael of income inequality (Y3). In this study, *the Stuctural Equation Modeling* (SEM) model or structural equation modeling was used as a basic

model for analyzing the influence of free (exogenous) variables on bound variables (endogenous).

Hypothesis

By referencing the backdrop, problem formulation, theoretical literature study, research conceptual framework, and the statement of the developed hypothesis, namely:

1. It is assumed that human resources have a favorable and substantial effect on economic disparity in Indonesia, either directly or indirectly via the absorption of labor.
2. It is assumed that the minimum wage has a favorable and considerable impact on income inequality in Indonesia, either directly or indirectly through labor absorption.
3. It is believed that investment has a positive and considerable impact on income disparity in Indonesia, either directly or indirectly through the employment of labor.
4. It is believed that human resources have a favorable and considerable effect on income disparity in Indonesia, either directly or indirectly via economic growth.
5. It is believed that the minimum wage has a beneficial and considerable impact on income inequality in Indonesia, either directly or indirectly via economic growth.
6. It is believed that investment has a positive and considerable impact on income disparity in Indonesia, either directly or indirectly via economic growth.

RESEARCH METHOD

This study will empirically examine the relationship between exogenous variables like human resources (HR), minimum wages, infrastructure, and investment and endogenous variables like employment, economic growth, and income inequality. Quantitative descriptive analysis (numbers as a research approach; Ratian & Narung, 2004) was utilized to accomplish the aims of this study (2014). The study was conducted across the entirety of Indonesia. In 2022, secondary data were utilized to collect the information for this study. The data for this research was given by the Central Statistics Agency and the Ministry of Finance. This secondary data comprises numerous sorts of economic data, specifically GDP numbers, as well as relevant scholarly articles, books, and journals. This study's sample size is N = 6 years x 33 provinces or 198 samples.

The collected information is documentation. This study analyzes empirically the relationship and influence of human resources, minimum wages, investment, employment, and economic growth on income distribution discrepancies. To achieve the goals of this study, a quantitative descriptive analysis was employed. Due to its quantitative nature, it employs Structural Equation Modeling (SEM) or structural equation modeling with panel data (combining time series and cross-sections). After multiple selection tests and model creation, this model became the estimation model. Through the SEM model, direct or indirect links between human resources, minimum wages, and investment, with employment and economic growth as intervening variables, and income disparity can be discovered, as can the relationship between independent and dependent variables. determined.

Based on the conceptual framework and structural equation model (SEM) analysis method, a functional equation is formed in the simultaneous method with the following reduce form:

a. Functional Models

$Y_1 = f(X_1, X_2, X_3)$ (3.1)

$Y_2 = f(X_1, X_2, X_3, Y_1)$ (3.2)
$Y_3 = f(X_1, X_2, X_3, Y_1, Y_2)$ (3.3)
$Y_1 = a_0 + a_1X_1 + a_2X_2 + a_3X_3 + \varepsilon_1$ (3.1.1)
$Y_2 = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon_2$ (3.2.1)
$Y_3 = \delta_0 + \delta_1X_1 + \delta_2X_2 + \delta_3X_3 + \delta_5Y_1 + \delta_6Y_2 + \varepsilon_3$ (3.3.1)
$Y_3 = \delta_0 + \delta_1X_1 + \delta_2X_2 + \delta_3X_3 + + \delta_5Y_1 + \delta_6Y_2 + \varepsilon_3$
$= \delta_0 + \delta_1X_1 + \delta_2X_2 + \delta_3X_3 + \delta_5 (a_0 + a_1X_1 + a_2X_2 + a_3X_3 + \varepsilon_1) + \delta_6 (\beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon_2) + \varepsilon_3$
$= \delta_0 + \delta_1X_1 + \delta_2X_2 + \delta_3X_3 + (\delta_5a_0 + \delta_5a_1X_1 + \delta_5a_2X_2 + \delta_5a_3X_3 + \delta_5\varepsilon_1) + (\delta_6\beta_0 + \delta_6\beta_1X_1 + \delta_6\beta_2X_2 + \delta_6\beta_3X_3 + \delta_6\varepsilon_2) + \varepsilon_3$
$= (\delta_0 + \delta_5a_0 + \delta_6\beta_0) + (\delta_1 + \delta_5a_1 + \delta_6\beta_1) X_1 + (\delta_2 + \delta_5a_2 + \delta_6\beta_2) X_2 + (\delta_3 + \delta_5a_3 + \delta_6\beta_3) X_3 + (\delta_5\varepsilon_1 + \delta_6\varepsilon_2 + \varepsilon_3)$
$Y_3 = \phi_0 + \phi_1X_1 + \phi_2X_2 + \phi_3X_3 + \mu_1$

Information :

Y1	: Employment
Y2	: Economic Growth
Y3	: Income Inequality
X1	: Human Resources
X2	: Minimum Wage
X3	: Investment
a0ß0	: Constant
a1-a4, ß0-ß5	: Regression coefficient
µ	: *Error term*

$Y_3 = \phi_0 + \phi_1X_1 + \phi_2X_2 + \phi_3X_3 + \mu_1$: The effect of all independent variables on dependents

RESULTS

Results

Validity Test, according to the results of the validity test, it is known that all the variable items in the study, namely Labor Absorption, Economic Growth, Income Inequality, Human Resources, Minimum Wage, and Investment, are valid, as the entire R-value index is greater than the R table value of 0.25. The results of the validity test of all study variables indicate that the validity test conforms to the data analysis method's statements (Ghozali, 2016).

Reability Test, Table 4 indicates that the Cronbach Alpha value for each variable's reliability test is greater than 0.60, so it can be inferred that the statements in the questionnaire issued to respondents have a high level of reliability and may be utilized as research instruments. Therefore, the findings of the reliability test are declared to be consistent with the data analysis approach (Sunyoto, 2013:81).

Table 1 Reliability Test

Variables	*Cronbach Alpha (a)*	Information
Labor Absorption	0,727	**Reliable**
Economic Growth	0,769	**Reliable**
Income Inequality	0,722	**Reliable**
Human Resource	0,810	**Reliable**
Minimum Wage	0,729	**Reliable**
Investation	0,756	**Reliable**

Source Table 1: Researcher, 2022

Evaluation of the path coefficient reveals the magnitude of the effect or influence of the independent variable on the dependent variable. While the coefficient of determination (R-Square) measures how much the endogenous variable is impacted by other variables, it is used to assess how much the endogenous variable is influenced by other variables. The R-value of 0.67 or higher for endogenous latent variables in the structural model, as stated by Chin, implies that the effect of exogenous factors (which influence) on endogenous variables (which are affected) falls within the "excellent" category. Meanwhile, if the result falls between 0.33 and 0.67, it is classified as medium, and if it falls between 0.19 and 0.33, it is classified as weak.
According to the analysis presented previously, all variables in this model have positive path coefficients. This indicates that the influence between exogenous factors and endogenous variables is stronger the bigger the path coefficient value from the exogenous variable to the endogenous variable. Based on data processing performed with the smartPLS 2.0 application, the following R-Square values are determined:

Table 2 R-Square

Variables	***R Square***
Labor Absorption	0.674272
Economic Growth	0.698140
Income Inequality	0.61908
Human Resource	-
Minimum Wage	-
Investation	-

Source Table 2: Researcher, 2022

The variables HR, Minimum Wage, and Investment do not have an R-Square value since they are not influenced by other variables, as shown in Table 2. In addition, the R-Square value for the variable Labor Absorption is 0.674272. Obtaining this result reveals why 67.42 percent of the total factors are internal. The R-Square value of the variable Economic Growth is 0.698140. The acquisition of this figure indicates that the proportion of Economic Growth's size is 69.81 percent. In addition, the R-Square value for the variable Income Inequality is 0.619%. Obtaining this result shows why the income inequality percentage is 61.9%. The results of data processing can be utilized to test the hypothesis of this study, given that data processing has been performed. T-Statistics and T-Table results reveal the hypothesis testing performed in this study. The hypothesis can be considered accepted if the T-Table value is greater than 1.96. The t-statistic value between the independent variables and the dependent variable in the Path Coefficient table of the SmartPLS output can be used to evaluate the significance of the model:

Table 3 T-Statistics

	Original Sample	***Sample Mean***	***Standard Deviation***	***T-Statistics***
HR ➔ Labor Absorption ➔ Income Inequality	-0,534	0,533	0,055	-9,652
Minimum Wage ➔ Labor Absorption ➔ Income Inequality	-0.638	0.648	0.052	-12.252
Infrastructure ➔ Labor Absorption ➔ Income Inequality	-0.640	0.633	0.117	-5.464
Investation ➔ Labor Absorption ➔ Income Inequality	0,275	0,273	0,054	-5,049
HR ➔ Economic Growth ➔Income Inequality	-0.408	0.410	0.088	-4.613
Minimum Wage➔ Economic Growth➔Income Inequality	0.78258	0.814714	0.045162	18.5321

Source Table 3: Researcher, 2022

$$Y_3 = ø_0 + ø_1X_1 + ø_2X_2 + ø_3X_3 + \mu_1$$
$$Y_3 = ø_0 + 0.810\ X_1 + 0.729\ X_2 + 0.756\ X_3 + \mu_1$$

These findings suggest that Human resources (X1) influence Income Inequality (Y1). According to the findings of the hypothesis test, the path coefficient value is 0.81 and the p-value is 0.012, indicating that Human resources affect Income Inequality. The findings indicate that the Minimum Wage (X2) influences Income Inequality (Y1). According to the results of the hypothesis test, the path coefficient value is 0.729 and the p-value is 0.036, indicating that the Minimum Wage affects Income Inequality. Additionally, the data indicate that investment (X3) affects Income Inequality (Y1). According to the results of the hypothesis test, the path coefficient value is 0.756% and the p-value is 0.021, indicating that investment affects Income Inequality.Moreover, as seen in the preceding table, during the testing of the hypothesis. The symmetrical path yielded a considerable unidirectional association. Testing of the null hypothesis revealed that all variables examined had a positive and statistically significant association with all other variables in the model.

DISCUSSION

The impact of human resources on economic disparity in Indonesia, either directly or indirectly via employment. The results of the hypothesis test indicate that human resources have a negative and statistically significant impact on income disparity in Indonesia, either directly or indirectly via employment. This suggests that better management of human resources will lead to a reduction in income disparity if labor absorption in Indonesia is a mediator and vice versa. According to Mulyadi (2003), the classical approach posits that humans are the most influential productive variables in determining a nation's success. The reason for this is that nature (land) is meaningless without competent human resources to manage it. In this instance, according to the basic theory of Adam Smith (1729-1790), the allocation of effective human resources is the impetus for economic expansion. The proper deployment of human resources is a fundamental condition for economic growth, as the accumulation of additional physical capital may be required for the economy to continue developing once it has expanded. The 1st hypothesis is rejected. This study's findings support findings from (Vo, Nguyen, Tran, & Vo, 2019) and (Sutrisno, 2012) that income disparity has a negative effect on economic growth, implying that an increase in wealth produces a decline in economic growth. The correlation between economic growth and income disparity suggests that income disparity can impair national output.

The impact of human resources on income disparity in Indonesia, either directly or indirectly via economic growth. The results of the hypothesis test indicate that human resources have a considerable and negative impact on income disparity in Indonesia, either directly or indirectly via economic growth. This shows that if economic growth in Indonesia mediates better management of human resources, the result will be a reduction in income disparity, and vice versa. In equilibrium, all resources, including labor, will be utilized to capacity. Thus, according to the market system, unemployment does not exist (there is employment). Instead of opting to have no income, unemployed individuals are prepared to work for a lower wage, which attracts more companies. The second hypothesis cannot be supported.

The influence of investment on income disparity in Indonesia, either directly or indirectly via employment. The results of the hypothesis test indicate that investment has a negative and statistically significant impact on Income Inequality in Indonesia via Labor Absorption. This suggests that higher investment will lower income inequality in Indonesia by absorbing more workers. The investment will boost economic expansion. Employment is one of the primary indicators of the macroeconomy. This section investigates the connection between investment and employment. Investment, GDP growth, and job creation are three interdependent elements. Employment will expand as a result of higher economic growth, which will occur if investments increase. In reality, creating jobs in Indonesia is not as simple as the image suggests. Investment expansion is not necessarily proportional to employment expansion. According to Bappenas (2003), the drop in employment creation following the economic crisis was due to substantial changes in industrial relations since 1998. Political and democratic reforms made it possible for workers to participate in determining working conditions and standards.

The influence of the minimum wage on income inequality in Indonesia, either directly or indirectly via labor absorption. The results of the hypothesis test indicate that the minimum wage has a negative and statistically significant impact on Income Inequality in Indonesia via Labor Absorption. This suggests that an increase in Indonesia's minimum wage will lower income inequality through labor absorption. The results of this test demonstrate that the hypothesis that the minimum wage has a significant impact on employment in the provinces of Indonesia is supported by statistical evidence. The negative path coefficient suggests that the influence of wages on income inequality via employment is not unidirectional, showing that an increase in wages has the potential to increase employment, particularly among low-productivity workers.

The impact of the minimum wage on income inequality in Indonesia, either directly or indirectly via economic growth. The results of the hypothesis test indicate that the minimum wage has a negative and statistically significant impact on Income Inequality in Indonesia via Economic Growth. This suggests that a rise in the minimum wage will lower income inequality in Indonesia through economic growth. The findings of these analyses support findings from Khoirudin and Musta'in (2020) and Sungkar, Nazamuddin, and Nasir (2015) showing the minimum wage influences the amount of income inequality. In addition, a review of the minimum wage's effect on income inequality reveals that it is an ineffective instrument, and an increase in the minimum wage is associated with a decline in the likelihood of working in the formal sector. This potential negative effect could reduce the overall advantage that a rise in the minimum wage could provide.

The impact of investment on income disparity in Indonesia, either directly or indirectly via economic growth. The results of the hypothesis test indicate that investment has a negative and statistically significant impact on Income Inequality in Indonesia through Economic Growth. This suggests that Improvement will lower Income Inequality in Indonesia via Economic Growth. This study's findings are consistent with those of Nangarumba (2015), who found that the functional form of the semi-log model in panel data regression revealed that GRDP, one of which was from the investment credit sector, was negatively correlated with the level of income inequality. This means that an increase in the investment sector would reduce the level of income inequality. In contrast, the findings of this study (Danawati, Bandesa, and Utama, 2016) indicate that government spending and investment have a favorable and significant impact on employment possibilities, economic growth, and income inequality.

CONCLUSION

Based on the provided research results and discussion, the following conclusions may be derived from this study:

1. The absorption of labor in Indonesia has a negative and considerable effect on economic disparity, either directly or indirectly through the utilization of human resources.
2. The minimum wage has a negative and considerable impact on income inequality in Indonesia, either directly or indirectly via labor absorption.
3. Investment has a negative and considerable effect on income inequality in Indonesia, either directly or indirectly via the absorption of labor.
4. Human resources have a considerable negative impact on income disparity in Indonesia, either directly or indirectly via economic growth.
5. The minimum wage has a major negative impact on income inequality in Indonesia, either directly or indirectly through economic growth.
6. Investment has negative and severe effects on income inequality in Indonesia, either directly or indirectly via economic growth.

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