

I-HDI, Employment Opportunities, and Minimum Wage: How Do They Affect Poverty?

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Abstract

Java Island remains the largest centre of poverty in Indonesia despite its dominant contribution to national economic activity. This study examines the direct effects of the Islamic Human Development Index (I-HDI), employment opportunities, and minimum wage on poverty, as well as their indirect effects through unemployment, in six provinces of Java Island during 2015–2022. This study uses secondary panel data obtained from official statistical sources and applies panel data regression with path analysis using EViews 10. The findings show that employment opportunities have a negative and significant effect on unemployment, while I-HDI and minimum wage have negative and significant direct effects on poverty. However, unemployment does not significantly mediate the effects of I-HDI, employment opportunities, and minimum wage on poverty. These findings imply that poverty reduction on Java Island should not rely solely on reducing unemployment. Still, they should also prioritise Islamic-based human development, the expansion of decent employment opportunities, and minimum wage policies that improve household welfare without weakening labour absorption.

Keywords: Poverty, Unemployment, Islamic Human Development Index (I-HDI), Employment Opportunity, Minimum Wage

Introduction

Poverty is a prevalent social issue globally, affecting both developed and developing nations.¹ Developing countries often experience poverty due to various structural and socio-economic factors.² One of the main challenges is that unemployed citizens in developing countries often have limited access to social protection and income support.³ Lack of education is also a cause of poverty in developing nations.⁴ In addition, weak government policy responses to environmental and climate-related risks may further intensify poverty, particularly in vulnerable communities.⁵

Poverty is a severe issue in Indonesia that requires urgent attention.⁶ Environmental conditions, access to health services, and educational opportunities

¹ Alex Addae-korankye, "Theories of Poverty: A Critical Review," *Journal of Poverty, Investment and Development*, Vol. 48, No. 2012, (2019), 55–62.

² Seyed Soroosh Azizi, "The Impacts of Workers' Remittances on Poverty and Inequality in Developing Countries," *Empirical Economics*, Vol. 60, No. 2 (2021), 969–91.

³ Pipit Anggriati Ningrum, Alexandra Hukom, and Saputra Adiwijaya, "The Potential of Poverty in the City of Palangka Raya: Study SMIs Affected Pandemic Covid 19," *Budapest International Research and Critics Institute (BIRCI-Journal): Humanities and Social Sciences*, Vol. 3, No. 3 (2020), 1626–34.

⁴ Yogeeswari Subramaniam and Tajul Ariffin Masron, "Education, Methane Emission and Poverty in Developing Countries," *Journal of Environmental Economics and Policy*, Vol. 9, No. 3 (2020), 355–69.

⁵ Walter Leal Filho, et. al., "Assessing the Impacts of Climate Change in Cities and Their Adaptive Capacity: Towards Transformative Approaches to Climate Change Adaptation and Poverty Reduction in Urban Areas in a Set of Developing Countries," *Science of the Total Environment*, No. 692 (2019), 1175–90.

⁶ Yogi Suprayogi Sugandi, "Program Penanggulangan Kemiskinan Perkotaan: Pengalaman Kota Bandung," *Jurnal Analisis Kebijakan dan Pelayanan Publik*, Vol. 2, No. 1, (2016), 109–27.

are among the factors that influence poverty across various islands in Indonesia.⁷ Macroeconomic factors, including exports, government spending, and inflation, also influence poverty.⁸ These conditions show that poverty in Indonesia is multidimensional and cannot be explained only by income, but also by human development, regional inequality, and labour market conditions.

Java Island is the centre of the national economy, accounting for 56.48 per cent of Indonesia's economic activity.⁹ However, Java also remains a major centre of poverty in Indonesia. The Central Statistics Agency reported that the poverty rate on Java Island was 10.24% in 2013 and decreased to 7.90% in 2019.¹⁰ This decline indicates progress in poverty reduction before the COVID-19 pandemic. However, the poverty rate increased again in 2020 to 9.31%, which was triggered by the COVID-19 pandemic that affected Indonesia's economic and social conditions.¹¹ This situation reflects a paradox in which Java dominates national economic activity, yet still faces persistent poverty.

The persistence of poverty in Java indicates that economic concentration does not automatically guarantee an inclusive distribution of welfare. One important channel through which poverty may persist is the labour market. Unemployment is particularly relevant because it reflects the labour market's inability to absorb the working-age population. When unemployment remains high, individuals lose access to a stable income, which can weaken household purchasing power and increase vulnerability to poverty.¹² In addition, unemployment can exacerbate social inequality through income deprivation and limited access to decent living standards.¹³ Therefore, unemployment should be treated not only as an independent determinant of poverty but also as a possible transmission channel through which human development, employment opportunities, and wage policies affect poverty reduction.

The Human Development Index (HDI) is one metric used to assess the effectiveness of initiatives to improve the quality of human life.¹⁴ However, conventional HDI primarily focuses on health, education, and income, whereas, in Islamic economics, poverty is understood as a broader welfare issue encompassing both material and non-material dimensions. In contrast to HDI, the Islamic Human Development Index (I-HDI) was developed to provide a more comprehensive indicator of human

⁷ Heffi Christya Rahayu, et. al., "Dynamic Panel Data Analysis of Poverty in Indonesia" Vol. 143, No. Isbest 2019 (2020), 137–41.

⁸ Anas Fadhillah, Arintoko Arintoko, and Kamio Kamio, "Effect Of Exports, Government Expenditure And Inflation On Indonesia Poverty (2000-2019)," *Media Ekonomi*, Vol. 21, No. 1 (2021), 43.

⁹ Central Statistics Agency, "Indonesian Economic Growth Quarter IV-2022," (Jakarta, 2023).

¹⁰ Central Statistics Agency, "Poverty Profile in Indonesia September 2022," (Jakarta, 2023).

¹¹ Indranil Chakraborty and Prasenjit Maity, "COVID-19 Outbreak: Migration, Effects on Society, Global Environment and Prevention," *Science of the Total Environment*, No. 728 (2020), 138882.

¹² Björn Halleröd, Hans Ekbrand, and Mattias Bengtsson, "In-Work Poverty and Labour Market Trajectories: Poverty Risks among the Working Population in 22 European Countries," *Journal of European Social Policy*, Vol. 25, No. 5 (2015), 473–88.

¹³ Wanga Zembe-Mkabile and Michael Noble, "Income Poverty and Unemployment in the Eastern Cape," in *Reflections from the Margins: Complexities, Transitions and Developmental Challenges - The Case of the Eastern Cape Province, South Africa*, 2021, 75–97.

¹⁴ Mohammad Bhakti Setiawan and Abdul Hakim, "Indeks Pembangunan Manusia Indonesia," *Jurnal Economia*, Vol. 9, No. 1 (2013), 18–26.

progress from an Islamic perspective.¹⁵ I-HDI components are highly relevant to poverty alleviation and can serve as an alternative to the conventional HDI.¹⁶

The use of I-HDI is important because it is rooted in the *maqashid sharia* framework, which emphasises the protection of religion, life, intellect, progeny, and wealth. Through this framework, human development is measured not only by economic achievement but also by the fulfilment of welfare, justice, and human dignity. Therefore, the use of I-HDI makes a distinctive contribution to Islamic economics by offering a broader perspective than the conventional HDI for analysing poverty.

Employment opportunities are also essential to poverty reduction because they determine whether individuals can participate in productive economic activities and earn a regular income.¹⁷ Employment availability reflects the economy's capacity to absorb labour and distribute economic benefits to households. However, employment expansion may not automatically reduce poverty if the jobs created are low-paid, informal, or unable to provide sufficient income security. Therefore, employment opportunities need to be examined not only as a direct determinant of poverty but also in relation to unemployment, a labour market outcome.

Minimum wage policy is another important instrument for reducing poverty in Indonesia.¹⁸ A properly designed minimum wage may improve workers' income and household purchasing power, thereby reducing poverty. However, minimum wages can have varied effects depending on the structure of the labour market, employer and worker behaviour, and the distance of the minimum wage from the equilibrium outcome in the absence of regulation.¹⁹ If productivity improvements and labour absorption do not accompany wage increases, the minimum wage policy may create different effects on unemployment and poverty across regions.

Previous empirical studies have examined several determinants of poverty in Java and Indonesia. Yoga Prasada et al.²⁰ found that the inflation rate, the Human Development Index, the regional minimum wage, and the open unemployment rate influence poverty levels in Java. Furthermore, Alexandi & Tinambunan²¹ also found that the number of agricultural labourers, health and education facilities, and economic growth affect poverty in Yogyakarta. Other studies have examined the relationships between I-HDI and employment opportunities, the minimum wage, unemployment, and poverty separately. Viollani et al. found that I-HDI can reduce poverty, as it had a significant negative influence on poverty in Indonesia.

¹⁵ Maizura Md Isa, et. al., "Islamic Human Development Index (I-HDI) and Poverty Reduction in OIC Countries," *Journal of King Abdulaziz University, Islamic Economics*, Vol. 36, No. 1 (2023), 71–90.

¹⁶ Maizura Md Isa, et. al., Islamic Human Development Index (I-HDI) and Poverty Reduction in OIC Countries.

¹⁷ Meyvi Rine Mirah, Paulus Kindangen, and Ita Pingkan F. Rorong, "Pengaruh Tingkat Partisipasi Angkatan Kerja Terhadap Pertumbuhan Ekonomi dan Kemiskinan di Provinsi Sulawesi Utara," *Jurnal Pembangunan Ekonomi dan Keuangan Daerah*, Vol. 21, No. 1 (2020), 85–100.

¹⁸ Ardhan Kurniawati, Beni Teguh Gunawan, and Disty Putri Ratna Indrasari, "Dampak Upah Minimum Terhadap Kemiskinan Di Indonesia Tahun 2006-2014," *Journal of Research in Economics and Management*, Vol. 17, No. 2 (2017), 233–52.

¹⁹ Tobey Kass, "The Effects of Minimum Wages on Poverty in the United States, 2008-2013" (Faculty of Mount Holyoke College in, 2016).

²⁰ Imade Yoga Prasada, Tri Fatma Mala Yulhar, and Tia Alfina Rosa, "Determinants of Poverty Rate in Java Island: Poverty Alleviation Policy," *Jurnal Ekonomi Pembangunan*, Vol. 18, No. 2 (2020), 95–104.

²¹ Muhammad Findi Alexandi and Edi Victara Tinambunan, "Poverty in Daerah Istimewa Yogyakarta (DIY): Policies and Efforts to Solve It (Data Year of 2010-2016)," *AFEBI Economic and Finance Review (AEFR)*, Vol. 04, No. 01 (2019), 18–25.

Apart from poverty, I-HDI also impacts unemployment; an increase in I-HDI results in a decrease in the unemployment rate.²² Saifuloh et al. found that labour force participation and employment opportunities affect poverty levels, while Muin²³ showed that extending the average length of schooling can reduce unemployment and poverty rates. The number of job opportunities also affects unemployment: more job opportunities can reduce national unemployment. Pambayun further found that increasing employment opportunities can reduce national unemployment.²⁴ In addition, Zakiyyah²⁵ found that provincial minimum wages had a negative but insignificant effect on poverty in 34 Indonesian provinces between 2018 and 2021.

However, these studies still leave several gaps. First, many studies use conventional human development indicators, while fewer studies employ I-HDI as an Islamic economics-based measure of human development. Second, previous studies have mostly examined the direct effects of human development, employment opportunities, minimum wage, or unemployment on poverty, while the mediating role of unemployment has received less attention. Third, studies on poverty in Java often focus on specific provinces. In contrast, Java Island, as an integrated regional context, remains important because it is both the centre of national economic activity and the largest concentration of poverty.

Based on these gaps, this study contributes to the literature in three ways. First, it uses the Islamic Human Development Index (I-HDI) rather than the conventional HDI to offer an Islamic economics perspective on poverty reduction through the *maqashid sharia* framework. Second, it focuses on six provinces in Java Island during 2015–2022, a period that captures both pre-pandemic and pandemic-related economic conditions. Third, it examines unemployment as an intervening variable, allowing this study to analyse whether I-HDI, employment opportunities, and minimum wage affect poverty directly or indirectly through labour market conditions. Therefore, this study aims to analyse the direct effects of I-HDI, employment opportunities, and minimum wage on poverty, as well as their indirect effects through unemployment in six provinces of Java Island during 2015–2022.

Literature Review

Poverty

Poverty is a condition in which individuals experience deprivation across several dimensions of life, including social, economic, political, and psychological well-being.²⁶ Poverty also means the inability to meet basic needs.²⁷ Therefore, poverty cannot be understood only as a lack of income, but also as limited access

²² Dwi Mahroji and Iin Nurkhasanah, "Pengaruh Indeks Pembangunan Manusia Terhadap Tingkat Pengangguran di Provinsi Banten," *Jurnal Ekonomi-Qu*, Vol. 9, No. 1 (2019), 51–72.

²³ Muhamad Fathul Muin, "Analysis of Determinants of Unemployment Rate in Indonesia," *Jurnal Perspektif Ekonomi Darussalam*, Vol. 6, No. 2 (2020), 145–62.

²⁴ Diesta Pambayun, "Indicators of the Association of Unemployment in Indonesia with the Level of Employment Opportunity, GDP, and SER," *Research Horizon*, Vol. 1, No. 5 (2021), 189–206.

²⁵ Nurul Azizah Az Zakiyyah, Firsty Ramadhona Amalia Lubis, and Intan Wahyuni, "Determinants of Poverty in Indonesia," *EKO-REGIONAL: Jurnal Pembangunan Ekonomi Wilayah*, Vol. 18, No. 2 (2023), 210–22.

²⁶ C.U. Iheanacho, et. al., "Poverty and Its Sequential Measurements: A Review," *IAR Journal of Engineering and Technology* Vol. 02, No. 01 (2021), 10–11.

²⁷ UNESCO, "Education for All Global Monitoring Report 2013/2014," 2014.

to resources, opportunities, and welfare. One way to understand poverty is by examining income inequality and poverty attribution, because unequal access to income, education, health, and employment opportunities can worsen the vulnerability of poor households.²⁸ In Indonesia, poverty is officially measured using the basic needs approach, which assesses individuals' ability to meet minimum food and non-food needs. According to the Central Statistics Agency, the poverty line is based on daily food consumption equivalent to 2,100 kilocalories per capita, combined with essential non-food consumption.²⁹ In this study, poverty is positioned as the dependent variable, reflecting the welfare outcomes of Islamic human development, employment opportunities, the minimum wage policy, and unemployment.

I-HDI, Unemployment, and Poverty

The Islamic Human Development Index (I-HDI) is a concept rooted in Islamic economics and *the maqasid sharia* terminology, according to Abdul Rahim. This index provides a broader framework for measuring human development because it incorporates five basic human needs: *Hifdzud deen*, or the protection of religion; *hifdzun Nafs*, or the protection of life; *hifdzul maal*, or the protection of wealth; *hifdzul 'aql*, or the protection of intellect; and *hifdzun nashl*, or the protection of progeny.³⁰ Through this framework, human development is understood not only as economic progress, but also as the fulfilment of material and non-material welfare. I-HDI can also be used to assess the progress of Islamic societies in achieving human development goals.³¹

Theoretically, I-HDI may affect unemployment because human development improves the quality of labour. Improvements in education, health, welfare, and social conditions can increase individual productivity, employability, and participation in the labour market. When the quality of human resources improves, the labour force is expected to have better skills and adaptability, which may reduce unemployment. Previous research also indicates that human development is related to unemployment dynamics, with increases in human development contributing to decreases in unemployment.³²

I-HDI may also directly affect poverty because it reflects the quality of human welfare. From a *maqasid sharia* perspective, poverty reduction is not only about improving income but also about protecting basic human needs. When religion, life, intellect, progeny, and wealth are better protected, individuals have greater opportunities to achieve welfare and escape poverty. Previous empirical research found that I-HDI has a significant negative effect on poverty, indicating that higher Islamic human development contributes to poverty reduction.³³

²⁸ Xue Eryong and Zhou Xiuping, "Education and Anti-Poverty: Policy Theory and Strategy of Poverty Alleviation through Education in China," *Educational Philosophy and Theory*, Vol. 50, No. 12 (2018), 1101–12.

²⁹ Central Statistics Agency, "Poverty and Inequality," (Jakarta, 2023).

³⁰ Zaeni Abdul Rahim, Syofriza Syofyan, and Lavlimatria Esya, "The Influence of the Islamic Human Development Index (I-HDI) on Human Development," *UMRAN - International Journal of Islamic and Civilizational Studies*, Vol. 9, No. 3 (2022), 83–103.

³¹ Ali Rama and Burhanuddin Yusuf, "Construction of Islamic Human Development Index," *Journal of King Abdulaziz University, Islamic Economics*, Vol. 32, No. 1 (2019), 43–64.

³² Dwi Mahroji and Iin Nurkhasanah, "Pengaruh Indeks Pembangunan Manusia Terhadap Tingkat Pengangguran di Provinsi Banten," *Jurnal Ekonomi-Qu*, Vol. 9, No. 1 (2019), 51–72.

³³ Kity Aiu Viollani, Siswanto, and Eko Suprayitno, "Pengaruh Islamic Human Development Index dan Pertumbuhan Ekonomi Terhadap Kemiskinan dengan Pengangguran Sebagai Variabel Intervening," *Fair Value*:

Furthermore, unemployment may mediate the relationship between I-HDI and poverty. Higher I-HDI may reduce unemployment by improving labour quality; lower unemployment may, in turn, increase household income and reduce poverty. However, this indirect mechanism depends on whether improvements in human development are effectively transmitted into labour absorption. If the labour market cannot absorb better-quality human resources, the effect of I-HDI on poverty may occur directly rather than through unemployment. Therefore, the following hypotheses are proposed:

H_1 : The Islamic Human Development Index has a significant effect on unemployment.

H_4 : The Islamic Human Development Index has a significant effect on poverty.

H_8 : The Islamic Human Development Index has a significant effect on poverty through unemployment.

Job Opportunities, Unemployment, and Poverty

Employment opportunities are prospects for individuals to engage in work that generates consistent income.³⁴ Employment opportunities are important because they determine the extent to which the labour market can absorb the working-age population. Keynes explains that the level of employment is determined by aggregate expenditure rather than merely by the price of labour.³⁵ Insufficient aggregate demand can create prolonged unemployment, while deliberate government intervention can encourage job creation and support full employment.³⁶

Theoretically, greater employment opportunities may reduce unemployment because more available jobs increase labour absorption. When job vacancies expand and labour demand increases, more individuals can participate in productive economic activities. Therefore, employment opportunities are expected to hurt unemployment. Previous empirical research also indicates that increasing employment opportunities can reduce national unemployment.³⁷

Employment opportunities may also reduce poverty directly by providing income, strengthening household purchasing power, and improving living standards. When individuals obtain stable jobs, they are better able to meet basic needs and reduce their vulnerability to poverty. Previous studies show that employment-related factors, including labour force participation and employment opportunities, affect poverty levels.³⁸ In addition, improvements in education and employment-related outcomes may reduce both unemployment and poverty because longer schooling can improve labour-market outcomes and welfare.³⁹

Unemployment may mediate the effect of employment opportunities on poverty. Greater employment opportunities are expected to reduce unemployment,

Jurnal Ilmiah Akuntansi dan Keuangan, Vol. 4, No. 11 (2022), 5233–44.

³⁴ Didi Djadjuli, "The Role of Government in Regional Economic Development," *Dynamics: Scientific Journal of State Administration Science*, Vol. 5, No. 2 (2018), 8–21.

³⁵ John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (Springer, 2018).

³⁶ John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (Springer, 2018).

³⁷ Diesta Pambayun, "Indicators of the Association of Unemployment in Indonesia with the Level of Employment Opportunity, GDP, and SER," *Research Horizon*, Vol. 1, No. 5 (2021), 189–206.

³⁸ Nur Imam Saifuloh, Abdul Aziz Ahmad, and Suharno, "The Effect of Employment Aspects on Poverty in Central Java Indonesia," *Eko-Regional Jurnal Pengembangan Ekonomi Wilayah*, Vol. 14, No. 1 (2019), 1–9.

³⁹ Muhamad Fathul Muin, "Analysis of Determinants of Unemployment Rate in Indonesia," *Jurnal Perspektif Ekonomi Darussalam*, Vol. 6, No. 2 (2020), 145–62.

and lower unemployment can reduce poverty by increasing access to income. However, the mediating effect may depend on the quality of employment. If the jobs created are informal, low-paid, unstable, or unable to provide sufficient income security, employment expansion may reduce unemployment without significantly reducing poverty. Therefore, the following hypotheses are proposed:

H_2 : Employment opportunities have a significant effect on unemployment.

H_5 : Employment opportunities have a significant effect on poverty.

H_9 : Employment opportunities have a significant effect on poverty through unemployment.

Minimum wage, Unemployment, and Poverty

The minimum wage is a legally established standard that determines the lowest wage that must be paid to workers.⁴⁰ Minimum wage policy has both economic and social functions, as it aims to protect workers and ensure they receive a minimum level of income.⁴¹ The government uses minimum wage regulation as an instrument in the labour market.⁴² In a market economy, the minimum wage is a central component of wage regulation and represents the lowest legal wage that firms must pay employees.⁴³ Minimum wage policy is intended to protect workers from wage uncertainty and prevent excessive wage declines.⁴⁴

The effect of minimum wage on unemployment is theoretically ambiguous. On the one hand, higher minimum wages may increase labour costs and reduce labour demand, especially when productivity improvements do not follow wage increases. On the other hand, minimum wage policy may improve worker motivation, productivity, and purchasing power, thereby supporting economic activity. Therefore, the effect of minimum wage on unemployment depends on labour market structure, employer behaviour, productivity, and regional economic conditions. Previous studies also show mixed findings, with minimum wage increases having small employment effects in some contexts but causing job losses in others.⁴⁵

Minimum wage may directly reduce poverty by increasing workers' income and household purchasing power. If the minimum wage is effectively implemented and reaches low-income workers, it can reduce working poverty and improve household welfare. Previous empirical research found that minimum wage adjustments are associated with poverty reduction.⁴⁶ However, the poverty-reducing effect of a minimum wage may be limited if many poor households work in the informal sector or are not covered by formal wage regulations.

Unemployment may also mediate the relationship between minimum wage and poverty. If minimum wage increases improve income without reducing employment, poverty may decline. However, if higher minimum wages reduce

⁴⁰ H. Blagoycheva, "Employers and Employees on Both Sides of the 'Minimum Wages' Barricade," 2018.

⁴¹ Zoe Adams, "Understanding the Minimum Wage: Political Economy and Legal form," *Cambridge Law Journal*, Vol. 78, No. 1 (2019), 42–69.

⁴² Kerstin Bruckmeier and Oliver Bruttel, "Minimum Wage as a Social Policy Instrument: Evidence from Germany," *Journal of Social Policy*, Vol. 50, No. 2 (2021), 247–66.

⁴³ Arindrajit Dube, "Minimum Wages and the Distribution of Family Incomes," *American Economic Journal: Applied Economics*, Vol. 11, No. 4 (2019), 268–304.

⁴⁴ Tiara Juliana Jaya and Kholilah, "Effect of Gross Domestic Regional Bruto, Provincial Minimum Wage, and Investment on Labor Absorption," *Jurnal Ekonomi Bisnis dan Kewirausahaan*, Vol. 9, No. 3 (2020), 236.

⁴⁵ Mario Bossler and Hans Dieter Gerner, "Employment Effects of the New German Minimum Wage: Evidence from Establishment-Level Microdata," *ILR Review*, Vol. 73, No. 5 (2020), 1070–94.

⁴⁶ Dube, "Minimum Wages and the Distribution of Family Incomes."

labour absorption and increase unemployment, the poverty-reducing effect may weaken. Therefore, the indirect effect of the minimum wage on poverty through unemployment should be tested empirically, especially in regions with varying wage levels and labour market structures, such as Java Island. Based on this explanation, the following hypotheses are proposed:

H_3 : Minimum wage has a significant effect on unemployment.

H_6 : Minimum wage has a significant effect on poverty.

H_{10} : Minimum wage has a significant effect on poverty through unemployment.

Unemployment and Poverty

Unemployment occurs when individuals in the labour force actively seek work but cannot obtain employment.⁴⁷ Unemployment is an important indicator of economic conditions because supply-and-demand dynamics, business cycles, and labour market frictions influence it.⁴⁸ Keynes argues that government intervention through aggregate demand stimulation can reduce unemployment, increase consumer confidence, and restore production during economic downturns.⁴⁹

Theoretically, unemployment increases poverty because unemployed individuals lose access to a stable income. Without employment, households may face lower purchasing power, limited consumption, and greater vulnerability to poverty. Previous empirical studies also show that unemployment is positively associated with poverty, as the absence of income can increase the poverty rate.⁵⁰ Therefore, unemployment is relevant not only as an intervening variable but also as a direct determinant of poverty.

H_7 : Unemployment has a significant effect on poverty.

Research Methods

This study employs a quantitative approach using panel data regression and path analysis. Panel data are used because this study combines time-series data from 2015 to 2022 and cross-sectional data from six provinces in Java Island, namely DKI Jakarta, Banten, West Java, Central Java, East Java, and DIY. The dependent variable in this study is poverty; the intervening variable is unemployment; and the independent variables are the Islamic Human Development Index (I-HDI), employment opportunities, and the minimum wage. The data used in this study are secondary data obtained from official publications, including the Indonesian Central Statistics Agency, the Ministry of Manpower, and other relevant official sources. Table 1 presents the operational definition, measurement, scale, and data source of each variable used in this study.

⁴⁷ Stephen A. Woodbury and Carl Davidson, *Search Theory and Unemployment* (Netherlands: Springer, 2012).

⁴⁸ Habib Kachlami, Darush Yazdanfar, and Peter Öhman, "Regional Demand and Supply Factors of Social Entrepreneurship," *International Journal of Entrepreneurial Behaviour and Research*, Vol. 24, No. 3 (2018), 714–33.

⁴⁹ John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Atlantic Publishers & Dist, 2016).

⁵⁰ Nur Feriyanto, Dityawarman El Aiyubbi, and Achmad Nurdany, "The Impact of Unemployment, Minimum Wage, and Real Gross Regional Domestic Product on Poverty Reduction in Provinces of Indonesia," *Asian Economic and Financial Review*, Vol. 10, No. 10 (2020), 1088–99.

Table 1. Operational Definition of Variables

Variable	Symbol	Measurement	Data Source
Poverty	Y	Percentage of poor population (%)	Central Statistics Agency
Unemployment	Z	Open unemployment rate (%)	Central Statistics Agency
Islamic Human Development Index (IHDI)	X1	Composite I-HDI index	Calculated from official statistical indicators
Employment Opportunities (JOB)	X2	Employment opportunity rate (%)	Central Statistics Agency
Minimum Wage (WAGE)	X3	Provincial minimum wage (IDR)	Ministry of Manpower / Provincial Government

The econometric model consists of two structural equations. The first equation examines the effects of I-HDI, employment opportunities, and the minimum wage on unemployment, while the second equation examines their effects on poverty, including unemployment as an intervening variable. The models are specified as follows:

$$Z_{it} = \alpha_0 + \beta_1 IHDI_{it} + \beta_2 JOB_{it} + \beta_3 WAGE_{it} + \epsilon_{it} \quad (1)$$

$$Y_{it} = \alpha_0 + \gamma_1 IHDI_{it} + \gamma_2 JOB_{it} + \gamma_3 WAGE_{it} + \gamma_4 Z_{it} + \epsilon_{it} \quad (2)$$

Where Y denotes poverty, Z denotes unemployment, IHDI denotes the Islamic Human Development Index, EO denotes employment opportunities, MW denotes minimum wage, i denotes province, t denotes year, and ϵ denotes the error term.

Panel data regression is applied because the data combine cross-sectional observations across provinces and time-series observations from 2015 to 2022. The estimation procedure considers three panel models: the Common Effect Model, the Fixed Effect Model, and the Random Effect Model. Model selection is conducted using the Chow test, Hausman test, and Lagrange Multiplier test. The Chow test compares the Common Effect and Fixed Effect models, the Hausman test compares the Fixed Effect and Random Effect models, and the Lagrange Multiplier test compares the Common Effect and Random Effect models.

After the best panel model is selected, the analysis proceeds with the t-test, F-test, and coefficient of determination. The t-test examines the partial effect of each independent variable, the F-test examines the joint effect of the independent variables, and the coefficient of determination measures the model's explanatory power.

This study also applies path analysis to estimate direct and indirect effects. Since unemployment is used as an intervening variable, this study applies mediation analysis rather than moderation analysis. The indirect effects are obtained by multiplying the coefficient of each independent variable on unemployment by the coefficient of unemployment on poverty. The significance of the indirect effects is tested using the Sobel test. The mediation effect is considered significant when the calculated t-value exceeds the critical value in the t-table.

Result and Discussion

The hypothesis outcomes in this study are based on the Fixed Effect Model, which is then examined using the T-test, F-test, Coefficient of Determination, and Path Analysis Equation. The T-Test Structure 1 findings indicate that only the employment opportunity variable has a p-value < 0.05. As a result, only the job opportunity variable substantially affects unemployment, while the IHDI and minimum wage factors do not.

Table 2. Structure T-Test 1

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	39.00386	11.58216	3.367580	0.0017
IHDI	-0.099973	0.058172	-1.718580	0.0936
JOB	-0.428991	0.073880	-5.806550	0.0000
WAGE	0.855796	0.521160	1.642099	0.1086

Based on the results from Table 4, the results of F-count > F-table of 63.64546 > 2.82 with a level of $\alpha = 5\%$ at $df_1 = 3$ and $df_2 = 44$ of 2.82 and a probability value of $0.000000 < 0.05$, so that H_a is accepted and H_0 is rejected, which means I-HDI, Job Opportunities, and Minimum Wage influence Unemployment.

Table 3. Structure F Test 1

F-statistic	63.64546
Prob(F-statistic)	0.000000

The coefficient of determination shows that the Adj. R2 is 0.914259, meaning that the Islamic Human Development Index, Job Opportunities, and Minimum Wage variables contribute or influence the Unemployment variable by 91.43%.

Table 4. Structure Determination Coefficient 1

R-squared	0.928853
Adjusted R-squared	0.914259

The structural path analysis 1 results yield the multiple regression equation $Y = 39.00386 - 0.099973X_1 - 0.428991X_2 + 0.855796X_3$. According to this equation, the constant value of 39.00386 implies that if the variables I-HDI (X_1), Employment Opportunities (X_2), and Minimum Wage (X_3) are zero in period t and observation i , then the Unemployment value (Z) is 39.00386.

Table 5. Panel Data Variable Coefficient Structure 1

Variables	Coefficient
C	39.00386
IHDI	-0.099973
JOB	-0.428991
WAGE	0.855796

The T-Test structure 2 results indicate that the variables I-HDI and Minimum Wage significantly impact unemployment (p-value < 0.05). In contrast, the Job Opportunities and Unemployment factors show no significant impact.

Table 6. Structure T-Test 2

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	64.63565	14.44673	4.474067	0.0001
IHDI	-0.194215	0.066240	-2.931995	0.0057
JOB	-0.090152	0.110756	-0.813977	0.4207
WAGE	-2.708548	0.591618	-4.578203	0.0000
Z	0.135304	0.175801	0.769644	0.4463

Then the results of the F Test structure 2 show the results of F-count > F-table of 96.21000 > 2.82 with a level of $\alpha = 5\%$ at $df_1 = 3$ and $df_2 = 44$ of 2.82 and a probability value of $0.000000 < 0.05$, so that H_a is accepted and H_0 is rejected, which means I-HDI, Job Opportunities, and Minimum Wage influence Poverty.

Table 7. Structure F Test 2

F-statistic	96.21000
Prob(F-statistic)	0.000000

The coefficient of determination shows that the Adj. R2 is 0.948003, indicating that the Islamic Human Development Index, Job Opportunities, and Minimum Wage variables explain 94.80% of the variance in the Poverty variable.

Table 8. Structure Determination Coefficient 2

R-squared	0.957959
Adjusted R-squared	0.948003

The results of the structural path analysis 2 yield the multiple regression equation $Y = 64.63565 - 0.194215X_1 - 0.090152X_2 - 2.708548X_3 + 0.135304Z$. According to this equation, the constant value of 64.63565 means that if the variables I-HDI (X_1), Job Opportunities (X_2), and Minimum Wage (X_3) are zero in period t and observation i , the Poverty value (Y) is 64.63565.

Table 9. Panel Data Variable Coefficient Structure 2

Variables	Coefficient
C	64.63565
IHDI	-0.194215
JOB	-0.090152
WAGE	-2.708548
Z	0.135304

Following that, the mediation hypothesis was tested. Using the Sobel test, the influence is measured indirectly with the intervening variable, unemployment. The Sobel test results indicate that the Islamic Human Development Index has a negative and minor influence on poverty due to unemployment (t -count < T-table, namely $-0.702440179 < 2.015$). Job opportunities indirectly and negligibly affect poverty through unemployment, as evidenced by their t -statistic (-0.762968218) being less than the critical value (2.015). The minimum wage harms poverty indirectly through unemployment (t -count < T-table, namely $0.696897523 < 2.015$).

Table 10. Sobel Test Results

Variable	Coefficient (a)	Std. Error (Sa)	a2	Sa2	ab	Sat	count	
a	IHDI	-0.099973	0.058172	0.009995	0.003383	-0.013527	0.010227	-0.702440179
	JOB	-0.428991	0.073880	0.184033	0.005458	-0.058044	0.012988	-0.762968218
	WAGE	0.855796	0.521160	0.732387	0.271608	0.115793	0.091620	0.696897523
Variable	Coefficient (b)	Std. Error (SB)	b2	Sb2				
b	Z	0.135304	0.175801	0.018307	0.030906			

Discussions

The Influence of the Islamic Human Development Index on Unemployment

The estimation results of the first structural equation show that the Islamic Human Development Index has a negative but statistically insignificant effect on unemployment. The negative coefficient indicates that higher Islamic human development tends to reduce unemployment, although the effect is not statistically strong. Theoretically, I-HDI may reduce unemployment through the *maqashid sharia* dimensions. The protection of intellect can improve education, skills, and employability, while the protection of life can strengthen workers' health and productivity. The protection of wealth may also improve access to productive resources and economic capability. However, the insignificant result suggests that improvements in Islamic human development in Java Island have not been fully translated into labour absorption. This may occur due to skill mismatches, unequal job distribution across provinces, or the prevalence of informal employment.

This finding supports Viollani et. al.,⁵¹ who found that Islamic human development is related to unemployment dynamics, but differs from Kurnia and Septiani,⁵² who reported a positive and significant relationship.

The Effect of Job Opportunities on Unemployment

The estimation results show that employment opportunities have a significant negative effect on unemployment. This means that an increase in employment opportunities reduces the unemployment rate in Java Island. From a labour market perspective, unemployment occurs when the supply of labour is not fully absorbed by labour demand. Therefore, when employment opportunities expand, firms and economic sectors create more vacancies, allowing a larger share of the labour force to enter employment. This process increases labour absorption and reduces open unemployment. In the context of Java Island, where economic activity is highly concentrated, the availability of employment opportunities becomes an important mechanism for translating economic activity into job creation. This finding is

⁵¹ Aiu Viollani, Siswanto, and Suprayitno, "Pengaruh Islamic Human Development Index dan Pertumbuhan Ekonomi Terhadap Kemiskinan Dengan Pengangguran Sebagai Variabel Intervening."

⁵² Rima Eka Kurnia and Yustirania Septiani, "Social and Economic Factors Determining the Unemployment Rate in the Bregasmalang Region 2010-2020," *Eko-Regional: Jurnal Pengembangan Ekonomi Wilayah*, Vol. 16, No. 1 (2021), 63-73.

consistent with Chandra et. al.,⁵³ who found that employment opportunities influence unemployment.

The Effect of Minimum Wages on Unemployment

The estimation results show that minimum wage has a positive but statistically insignificant effect on unemployment. This indicates that an increase in minimum wage tends to be associated with higher unemployment, although the relationship is not statistically strong. From a neoclassical labour market perspective, a higher minimum wage may increase labour costs and reduce labour demand, especially when the wage level exceeds workers' marginal productivity. In this condition, firms may limit hiring, reduce working hours, or substitute labour for capital, thereby increasing unemployment. However, efficiency wage theory suggests a different mechanism: higher wages may improve worker motivation, productivity, and retention, thereby reducing turnover and offsetting potential employment losses. The insignificant result in this study indicates that the effect of minimum wage on unemployment in Java Island is not uniform and may depend on provincial productivity, firm capacity, and labour market structure. Therefore, this finding should not be interpreted as evidence that minimum wage significantly increases unemployment. Instead, it suggests that the minimum wage policy in Java Island may have different effects across provinces depending on economic structure and labour absorption capacity.

The Influence of the Islamic Human Development Index on Poverty

The estimation results show that the Islamic Human Development Index has a negative and significant effect on poverty. This indicates that higher Islamic human development is associated with lower poverty in Java Island. Theoretically, I-HDI contributes to poverty alleviation through the *maqashid sharia* dimensions. The protection of intellect improves education and human capability, enabling individuals to access better economic opportunities. Protecting life strengthens health and productivity, while protecting wealth supports economic security and access to resources. In addition, the protection of progeny and religion reflects broader social and moral welfare, thereby strengthening household resilience and social responsibility. Through these dimensions, I-HDI reduces poverty not only by improving income-related capacity but also by strengthening material and non-material welfare.

This finding is consistent with Vinta and Rosyidah,⁵⁴ who found that I-HDI negatively and significantly affects poverty. It also supports Abdul Rahim et. al.,⁵⁵ who argue that Islamic human development has the potential to improve welfare and reduce poverty.

⁵³ Aditya Surya Chandra, Yulmardi, and Erfit, "Pengaruh Pertumbuhan Penduduk, Inflasi, Investasi, Upah Minimum dan Kesempatan Kerja terhadap Pengangguran di Kota Jambi," *Jurnal Paradigma Ekonomika*, Vol. 15, No. 2 (2020), 197–212.

⁵⁴ Ericka Nora Vinta and Norma Rosyidah, "Analysis of the Islamic Human Development Index (I-HDI), Economic Growth and Unemployment Rate on Poverty in Indonesia for the 2013-2022 Period," *ICONIEB: International Conference of Islamic Economics and Business*, 2023, 219–29.

⁵⁵ Abdul Rahim, Syofyan, and Esya, "The Influence of the Islamic Human Development Index (I-HDI) on Human Development."

The Effect of Employment Opportunities on Poverty

The estimation results indicate that employment opportunities have a negative but not statistically significant effect on poverty. The negative coefficient indicates that higher employment opportunities tend to reduce poverty, although the effect is not statistically strong. Theoretically, employment opportunities can reduce poverty by providing income, increasing household purchasing power, and improving individuals' ability to meet basic needs. When more people are employed, households become less dependent on informal support and have greater capacity to improve their welfare. However, the insignificant result suggests that job availability on Java Island may not be sufficient to reduce poverty if the jobs created are low-paid, informal, unstable, or inaccessible to poor households. In this context, employment quantity alone may not be enough; the quality of employment also matters.

This finding is consistent with Chandrarekha et. al.,⁵⁶ who found that increased work opportunities can help reduce poverty. However, the insignificant effect observed in this study indicates that employment expansion on Java Island needs to be accompanied by decent wages, productivity improvements, and better job quality to achieve a stronger poverty-reducing effect.

The Effect of Minimum Wages on Poverty

The estimation results show that minimum wage has a negative and significant effect on poverty. This indicates that an increase in minimum wage is associated with a reduction in poverty in Java Island. Theoretically, a minimum wage policy can reduce poverty through the income channel. When minimum wages increase, workers receive higher earnings, which can improve household purchasing power and the ability to meet basic needs such as food, housing, education, and health. Higher wages may also reduce working poverty, especially among low-income workers who depend on wages as their primary source of livelihood. Therefore, the minimum wage policy can function as a welfare instrument when wage increases are effectively transmitted to household income.

This finding is consistent with Gindling,⁵⁷ who found that increasing minimum wages in developing countries can reduce poverty. It also supports Dube,⁵⁸ who showed that minimum wage adjustments are associated with poverty reduction. In the context of Java Island, the significant negative effect suggests that the minimum wage policy may contribute to poverty alleviation by improving workers' incomes without substantially weakening labour absorption.

The Effect of Unemployment on Poverty

The estimation results show that unemployment has a positive but statistically insignificant effect on poverty. The positive coefficient indicates that higher unemployment tends to increase poverty, although the effect is not statistically strong. Theoretically, unemployment increases poverty through the income-loss

⁵⁶ C. Chandrarekha, et. al., "Nexus between Agriculture Growth and Poverty Reduction in India," *Asian Journal of Agricultural Extension, Economics & Sociology*, Vol. 40, No. 12 (2022), 157–63.

⁵⁷ Tim Gindling, "Does Increasing the Minimum Wage Reduce Poverty in Developing Countries?," *IZA World of Labor*, 2024, 1–11.

⁵⁸ Dube, "Minimum Wages and the Distribution of Family Incomes."

mechanism. When individuals lose employment or fail to obtain work, they also lose regular income, reducing household purchasing power and limiting the ability to meet basic needs. This condition may increase vulnerability to poverty, especially for households with limited savings or no alternative sources of income. Unemployment can also weaken long-term welfare by reducing work experience, lowering future earning capacity, and increasing dependence on informal support.

This finding is consistent with Feriyanto et al., who found that unemployment is positively associated with poverty. However, the insignificant result in this study suggests that the unemployment-poverty relationship on Java Island may be affected by other factors, such as informal employment, household income diversification, social assistance, or underemployment, which are not fully captured by the open unemployment rate.

The Influence of the Islamic Human Development Index on Poverty through Unemployment

The estimation results indicate that I-HDI has a negative but not statistically significant indirect effect on poverty through unemployment. This indicates that higher Islamic human development tends to reduce poverty by lowering unemployment, but the mediating effect is not statistically significant.

Theoretically, unemployment can function as an intermediary variable because human development affects poverty partly through labour market outcomes. Improvements in I-HDI, particularly through education, health, and welfare dimensions, can improve human capability, productivity, and employability. Improved human capability is expected to reduce unemployment by increasing individuals' ability to access jobs. Lower unemployment can then reduce poverty by increasing household income and purchasing power. Therefore, unemployment represents the labour market channel through which Islamic human development may be transmitted into poverty reduction.

However, the insignificant mediation effect suggests that improvements in I-HDI in Java Island have not been fully converted into employment absorption. This may occur due to a skills mismatch, an unequal distribution of job opportunities, the dominance of informal employment, or limited availability of decent work. As a result, I-HDI may reduce poverty more directly through broader welfare improvements rather than indirectly through unemployment reduction. This finding is consistent with Sumiyarti et. al.,⁵⁹ who found that higher human development contributes to lower unemployment and poverty.

The Effect of Employment Opportunities on Poverty through Unemployment

The estimation results show that employment opportunities have a negative but statistically insignificant indirect effect on poverty through unemployment. This indicates that greater employment opportunities tend to reduce poverty by lowering unemployment, although the mediating effect is not statistically strong. Theoretically,

⁵⁹ Syafril Sumiyarti, Firdayeti Firdayeti, and Khoriro Handayani, "Determinants of Human Development Index: Case Study of Provinces in Indonesia," in *Proceedings of the First Lekantara Annual Conference on Public Administration, Literature, Social Sciences, Humanities, and Education* (European Alliance for Innovation, 2022).

employment opportunities affect poverty through the labour absorption mechanism. When employment opportunities expand, more workers can enter the labour market, which reduces unemployment. Lower unemployment increases household income, strengthens purchasing power, and improves households' ability to meet basic needs. Through this pathway, employment opportunities can contribute to poverty alleviation by first reducing unemployment and then improving household welfare.

However, the insignificant mediation effect suggests that the availability of employment opportunities in Java Island has not been fully translated into poverty reduction through unemployment. This may occur if the jobs created are informal, low-paid, unstable, or not accessible to poor households. Therefore, job creation alone is not sufficient; employment quality and income security are also necessary for employment opportunities to produce a stronger poverty-reducing effect. This finding is consistent with Haller and Heuermann,⁶⁰ who found that increasing employment opportunities can reduce unemployment, and Ojima,⁶¹ who emphasised the role of government policy in creating jobs and reducing unemployment.

The Effect of Minimum Wages on Poverty Through Unemployment

The estimation results show that minimum wage has a positive but statistically insignificant indirect effect on poverty through unemployment. This indicates that higher minimum wages tend to increase poverty indirectly through higher unemployment, although the mediating effect is not statistically significant. Theoretically, the indirect effect of minimum wage on poverty through unemployment depends on how labour markets respond to wage increases. From the neoclassical perspective, a higher minimum wage may increase labour costs and reduce labour demand when the wage level exceeds workers' marginal productivity. This condition may increase unemployment and weaken the poverty-reducing effect of wage policy. In contrast, efficiency wage theory suggests that higher wages may improve worker motivation, productivity, and retention, thereby reducing turnover and offsetting potential job losses. Therefore, minimum wage policy may reduce poverty when it improves household income without reducing employment, but it may weaken poverty reduction when it reduces labour absorption.

The insignificant mediation effect in this study suggests that the minimum wage policy in Java Island does not affect poverty mainly through unemployment. This may occur because the effect of minimum wage differs across provinces depending on productivity levels, industrial structure, firm capacity, and the share of informal employment. In provinces where firms can absorb wage increases, the minimum wage policy may improve worker welfare. However, in labour-intensive or low-productivity sectors, higher wages may limit hiring and weaken labour absorption.

This explains why previous studies show different findings. Schmitt⁶² found that raising the minimum wage can help reduce unemployment and poverty. In

⁶⁰ Peter Haller and Daniel F. Heuermann, "Opportunities and Competition in Thick Labor Markets: Evidence from Plant Closures," *Journal of Regional Science*, Vol. 60, No. 2 (2020), 273–95.

⁶¹ Davis Ojima, "Unemployment And Economic Development in Nigeria (1980-2017)," *Advances in Social Sciences Research Journal*, Vol. 6, No. 1 (2019), 110–21.

⁶² John Schmitt, "Explaining the Small Employment Effects of the Minimum Wage in the United States," *Industrial Relations*, Vol. 54, No. 4 (2015), 547–81.

contrast, Olarewaju et al. and Bossler and Gerner⁶³ found that higher minimum wages may lead to job losses. Thus, the effect of minimum wage policy is context-dependent and should be interpreted in light of labour market structure and regional economic conditions.

Conclusion

The analysis of data and subsequent discussions reveal several key findings regarding the factors affecting unemployment and poverty on the island of Java. Firstly, job opportunities have a significant, direct negative impact on unemployment levels in Java, indicating that an increase in employment opportunities reduces unemployment. Conversely, the Islamic Human Development Index (I-HDI) demonstrates a negative effect on unemployment. At the same time, the minimum wage has a minor but direct positive effect, suggesting that higher wages may slightly increase unemployment in the region.

Regarding poverty, both the I-HDI and the minimum wage have a substantial and direct negative effect on poverty levels across Java, implying that improvements in human development and wage policies can significantly alleviate poverty. However, job opportunities show a negative but statistically insignificant direct positive impact on poverty, indicating a limited influence in this context. Furthermore, the I-HDI and job opportunities indirectly reduce poverty by lowering unemployment, while the minimum wage exerts a minimal positive influence on poverty, mediated by unemployment.

Based on these findings, several policy recommendations can be proposed to address unemployment and poverty in Java. Local governments are encouraged to implement both macro and micro policies to enhance human development, expand employment opportunities, optimize provincial minimum wage structures, and reduce unemployment rates. Such measures are expected to contribute to a decline in both unemployment and poverty levels. Additionally, future research could incorporate other relevant variables, such as zakat, waqf, sukuk, and education, to provide a more comprehensive analysis. Extending the study period and adopting a multidimensional poverty index could further improve the accuracy of poverty assessments on Java.

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⁶³ Mario Bossler and Hans Dieter Gerner, "Employment Effects of the New German Minimum Wage: Evidence from Establishment-Level Microdata," *ILR Review*, Vol. 73, No. 5 (2020), 1070–94.

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