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THE RELATIONSHIP BETWEEN MINIMUM WAGE POLICY, HUMAN CAPITAL INVESTMENT, AND ECONOMIC GROWTH

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Abstract
The relationship between minimum wage policy, human capital investment, and economic growth refers to the complex interaction between three key elements in economic development. Minimum wage policy is a government regulation that sets the lowest limit of wages to be paid to workers. Human capital investment involves efforts to improve the quality and capacity of the workforce through education, training and skills development. Meanwhile, economic growth refers to the increase in the production capacity of goods and services in an economy over time. This relationship illustrates how the right wage policy and investment in human capital can work together to boost productivity, innovation, and ultimately sustainable economic growth. The research method uses a literature review. The results show that an appropriate minimum wage policy can improve workers' living standards and encourage consumption, but needs to be implemented carefully to avoid negative impacts on employment. Investments in human capital through education and training are proven to increase productivity and innovation, which in turn boost economic growth. The study concludes that a balanced and integrated approach in managing minimum wage policy and human capital investment is essential to achieve sustainable and inclusive economic growth.
Keywords: Minimum Wage Policy, Human Capital Investment, Economic Growth.

Introduction

Economic growth is one of the main indicators of a country's development success. In an effort to achieve sustainable economic growth, various economic policies are implemented, including minimum wage policy and human capital investment. However, the relationship between these three variables is still a topic of debate among economists and policymakers. (ANOCHIWA, 2021).

The Minimum Wage Policy is a labour regulation instrument implemented by the government to set the lowest wage standard that must be paid by employers to workers. The main objective of this policy is to protect the welfare of workers, especially those at the lowest income levels, and ensure a decent standard of living. The implementation of minimum wage policy has become a common practice in many countries, yet it remains a controversial topic in economic and social discussions. (Sepdianty & Tuah, 2024).. Proponents of this policy argue that minimum wages can reduce poverty, increase productivity, and promote economic growth through increased purchasing power. Critics, on the other hand, are concerned that the policy could lead to unemployment, especially among low-skilled workers, as well as place an additional burden on small and medium-sized enterprises. The effectiveness of minimum wage policies depends on various factors, including local economic conditions, productivity levels, and enforcement mechanisms in place. (Jie & Zhao, 2023).

Human capital investment is a key strategy in organisational development and economic growth, focusing on improving the quality, skills and productivity of the workforce. The concept involves allocating resources to education, training, health, and employee welfare, with the aim of improving human capital and, ultimately, organisational performance. HR investment covers a wide range of aspects, from professional development programmes, educational scholarships, technical and soft skills training, to occupational health and safety initiatives. (Ibrahim & Abiddin, 2024). In the era of a rapidly evolving knowledge-based and technology-driven economy, HR investments are becoming increasingly crucial to ensure organisational competitiveness and workforce adaptability to change. The long-term benefits of HR investments include increased productivity, innovation, employee loyalty, and ultimately, sustainable economic growth. While HR investments may require significant upfront expenditure, the positive impact on organisational performance and employee well-being often far outweighs these initial costs. (Hind & Mohammed, 2024).

Economic growth is a key indicator that describes the increase in the production capacity of a country or region in producing goods and services over time. Usually measured by the percentage increase in Gross Domestic Product (GDP) or Gross National Product (GNP), economic growth reflects an increase in the standard of living and general welfare of society. Factors that influence economic growth include capital investment, technological advancement, increased labour productivity, natural resources, and supportive government policies. Sustainable economic growth is considered essential for reducing poverty, creating jobs, and improving people's quality of life. (Durongkaveroj, 2022). However, the concept has also faced criticism, particularly in relation to the unequal distribution of wealth and the environmental impacts brought about by ever-increasing economic activity. Therefore, many economists and policymakers are now emphasising the importance of inclusive and sustainable economic growth, which does not only focus on increasing GDP figures, but also pays attention to social and environmental aspects. (Egbewole, 2020).

Based on this background, this study examines the relationship between minimum wage policy, human capital investment, and economic growth.

Research Methods

The study in this research uses the literature method. The literature research method, also known as a literature study or literature review, is a research approach that focuses on analysing and synthesising existing information from various written sources. (Fadli, 2021); (Setiowati, 2016).

Results and Discussion

Minimum Wage Policy

Minimum wage policy is a regulation set by the government to determine the lowest limit of wages that must be paid by employers to workers or labourers. This policy aims to protect the rights of workers, especially those at the lower levels, from exploitation and to ensure a decent standard of living. Minimum wages are usually set based on various factors, including the cost of living, productivity levels, labour market conditions, and economic growth in a region or country. (Harris, 2020).

The concept of minimum wage policy is based on the principles of social and economic justice, with the main objective of creating a balance between the interests of workers and employers. On the one hand, this policy is intended to prevent labour exploitation and ensure that workers can meet their basic needs. (Bharath et al., 2021).. On the other hand, setting the minimum wage must also consider the company's ability to pay and its impact on industry competitiveness. The implementation of minimum wage policies is often the subject of economic and political debate, with different parties having different views on the optimal level and its impact on employment, inflation, and economic growth. (Clemens & Strain, 2023).

Minimum wage policies have complex and diverse impacts on the economy and society. On the one hand, it can increase the income and purchasing power of low-income workers, potentially reducing poverty and economic inequality. It can also increase worker motivation and productivity, and boost domestic consumption. However, on the other hand, too high or too rapid an increase in the minimum wage can be burdensome for firms, especially small and medium-sized enterprises, which may respond by reducing working hours, reducing the number of employees, or even closing the business (Aaronson et al., 2015). (Aaronson et al., 2020).. This may result in increased unemployment, especially among low-skilled or entry-level workers. In addition, minimum wage policies can also drive inflation if higher labour costs are passed on to product and service prices. Therefore, the implementation of minimum wage policies requires a careful balance between worker protection and maintaining overall economic stability. (Ojima, 2021).

Human Capital Investment

Human capital investment is a concept that refers to a systematic effort to improve the knowledge, skills and abilities of individuals or groups within an organisation or society. It is based on the understanding that people are the most valuable asset in an economic system or organisation. Human capital investment involves the allocation of resources, both time and money, for human capacity development through various forms of education, training, career development, and welfare improvement. The ultimate goal is to increase the productivity, innovation, and competitiveness of individuals and organisations in the long term. (Tanaka, 2020).

In a broader context, human capital investment is seen as a key strategy for economic growth and social development. Human capital theory emphasises that investments in education and training can generate significant economic returns, both for individuals and society as a whole. HR investments can cover a wide range of aspects, from formal education, on-the-job training, apprenticeship programmes, to health and welfare initiatives. At the organisational level, HR investments are often an integral part of human resource management strategies, focusing on developing employee competencies, talent management and creating a culture of continuous learning. (Rusydan & Wijaya, 2024).

Human capital investment can take many complementary forms to comprehensively develop an individual's potential. Common forms of HR investment include: formal education, ranging from primary to tertiary levels; specific on-the-job training to enhance technical and soft skills; leadership development programmes to prepare a cadre of future leaders; mentoring and coaching to provide personal and professional guidance; job rotation to broaden cross-functional experience and understanding; internship programmes that provide on-the-job learning opportunities; seminars and workshops to update knowledge and keep up with industry developments; e-learning and distance learning that enable more flexible access to education; health and welfare programmes to maintain employee productivity; and organisational culture development initiatives that support continuous learning. Each of these forms of investment has an important role in shaping human resources that are competent, adaptive, and ready to face challenges in an ever-changing era. (Audit et al., 2024).

Human capital investment is not only about improving technical skills, but also character building, adaptability, and readiness for change. As such, HR investments are key in preparing the workforce and society to face future challenges, drive economic growth, and improve overall quality of life.

Economic Growth

Economic growth is one of the important indicators in measuring the economic development of a country or region. By definition, economic growth can be interpreted as an increase in production capacity in an economy over time, which is reflected in an increase in national income (Gross Domestic Product or GDP) in the long term. (Sekarwati et al., 2024).. This concept not only includes quantitative increases in output, but also involves changes in economic structure, technology, and income distribution. Economic growth is usually measured in terms of the percentage change in real GDP from year to year, taking into account inflationary factors to provide a more accurate picture of the increase in production of goods and services in an economy. (Shahiri et al., 2024)..

The concept of economic growth is closely related to the process of increasing productivity and efficiency in the use of existing resources. It involves various factors such as capital accumulation, technological advancement, improvement in the quality of human resources, and improvements in institutions and economic policies. (Joshi, 2022). Theories of economic growth, ranging from classical models to modern endogenous growth theories, seek to explain the mechanisms and factors that drive long-run growth. Although economic growth is often considered the primary objective of economic policy, economists and policymakers also consider other aspects such as income distribution, environmental sustainability, and social welfare in the broader context of economic development. (Dihai, 2023).

Economic growth is influenced by various interrelated and complex factors. Some of the main factors affecting economic growth include: (1) Natural resources, including mineral wealth, fertile land, and energy sources; (2) Human resources, including the quantity and quality of labour, education levels, and skills; (3) Capital formation, both physical and financial, which supports investment and expansion of production capacity; (4) Technological progress and innovation, which increase productivity and efficiency; (5) Institutional factors, such as political stability, quality of government, and favourable economic policies; (6) Infrastructure, including transport, communications, and other public facilities; (7) International trade and economic openness; (8) Culture and social values that encourage or inhibit economic activity; and (9) Demographic factors such as population growth and age structure. The interaction and effective management of these factors can promote sustainable economic growth, while limitations or imbalances among these factors can hinder the rate of economic growth of a country or region (Reportašek et al., 2014). (Laporšek et al., 2024)..

In conclusion, economic growth is a complex and multidimensional process that involves a sustained increase in production capacity and national income. This concept not only includes the quantitative aspect of increasing output, but also involves structural changes in the economy, technological advances, and improvements in people's welfare. Economic growth is influenced by various interrelated factors, including natural and human resources, capital formation, technological progress, government policies, and institutional factors. Understanding and effectively managing these factors is key to achieving sustainable economic growth. While economic growth is often the primary objective of economic policy, it is important to consider other aspects such as equitable income distribution, environmental sustainability, and improving people's quality of life in the broader context of economic development. As such, economic growth should be seen as an integral part of a holistic development process centred on human well-being.

The Relationship between Minimum Wage Policy, Human Capital Investment, and Economic Growth

The relationship between minimum wage policy, human capital investment, and economic growth is a complex and interrelated topic in the context of economic development. These three aspects play an important role in shaping the dynamics of a country's economy and affecting the overall welfare of society. (Grimshaw, 2023).

Minimum wage policies aim to protect workers from exploitation and ensure a decent standard of living. When set at the right level, minimum wages can increase worker productivity, encourage consumption, and reduce income inequality. (Kodila-Tedika & Kalemasi, 2022).. However, if set too high, it can have negative effects such as a reduction in employment or an increase in inflation. On the other hand, higher wages can encourage firms to invest in technology and improve efficiency, which in turn can support long-term economic growth (Fazio & Reggiani, 2012). (Fazio & Reggiani, 2023).

Investment in human capital, particularly through education and training, is crucial to improving labour productivity and fostering innovation. Qualified human resources can adopt and develop new technologies more effectively, improve economic competitiveness and support sustainable growth. In addition, HR investments can also improve social mobility and reduce economic inequality, ultimately contributing to social and political stability that supports economic growth (Ling et al., 2024). (Ling et al., 2024).

Economic growth, as a result of the interaction of various factors including minimum wage policy and HR investment, can create a positive, mutually reinforcing cycle. Strong growth can increase labour demand, boost wages, and provide more resources for HR investments. Conversely, improvements in the quality of human capital and decent wages can boost productivity and innovation, which in turn fuels further economic growth. However, it is important to ensure that economic growth is inclusive and sustainable, taking into account aspects of equity and environmental sustainability. (Jardim et al., 2022)..

In the context of this complex relationship, the government has an important role in balancing various interests and creating an environment conducive to sustainable economic growth. Minimum wage policies need to be set carefully, taking into account local and regional economic conditions and the impact on industry competitiveness. Meanwhile, investment in human capital should be a long-term priority, with a focus on improving the quality of education, vocational training and skills development programmes aligned with labour market needs. (Richardson, 2021).

In addition, it is important to understand that minimum wage policy and HR investment cannot stand alone in driving economic growth. Other factors such as infrastructure, investment climate, political stability, and fiscal and monetary policies also play important roles. Therefore, a holistic approach is needed in economic policy planning and implementation to ensure synergy between the various aspects of development. (Dihai, 2023).

Global challenges such as automation, climate change, and technological disruption also need to be considered in designing minimum wage policies and HR investment strategies. Flexibility and adaptability are key in dealing with rapid changes in the global labour market. Retraining and upskilling programmes need to be developed to help the workforce adapt to the demands of the new economy, while minimum wage policies may need to be adjusted to reflect the changing economic realities. (Long, 2021).

In conclusion, the relationship between minimum wage policy, human capital investment, and economic growth is complex and interrelated. The right policies can create a positive cycle that boosts productivity, innovation, and people's welfare. However, a careful balance and comprehensive approach is needed to ensure that these three aspects can synergise effectively. The government, private sector and civil society need to work together in designing and implementing strategies that take into account the specificities of local conditions while remaining responsive to global trends. By doing so, the country can achieve economic growth that is inclusive, sustainable, and beneficial to all levels of society.

Conclusion

The relationship between minimum wage policy, human capital investment, and economic growth is a complex and interrelated system. Appropriate minimum wage policies can improve workers' living standards and encourage consumption, but must also be implemented carefully to avoid negative impacts on employment and industrial competitiveness. On the other hand, investment in human capital through quality education and training can improve labour productivity, encourage innovation, and ultimately contribute to sustainable economic growth.

Achieving optimal economic growth requires a balanced and comprehensive approach to managing minimum wage policy and human capital investment. The government, private sector and civil society need to collaborate in designing and implementing strategies that take into account local conditions as well as global trends. By combining fair wage policies, well-planned human capital investments, and the creation of an environment conducive to innovation and productivity, a country can achieve inclusive and sustainable economic growth, ultimately improving the welfare of all citizens.

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