ABSTRACT

The manufacturing industry has contributed the highest to the Regional Gross Domestic Product (PDRB) of Central Java Province from 2011 to 2020. However, the labor productivity of the manufacturing industry in Central Java is below the national labor productivity rate. Theoretically, wages are one of the instruments to increase labor productivity.

This study aims to analyze the effect of wages on labor productivity in the manufacturing industry in Central Java from 2011 to 2020 using panel data regression. In addition to the level of wages, the factors used in this study are the level of education, foreign ownership, and capital.

The results show that the Fixed Effect Model (FEM) is the best model in this study. Wage per labor and fixed capital per labor have a significant positive effect on labor productivity. These results indicate that an increase in wages per labor and capital per labor will increase the labor productivity of the manufacturing industry in Central Java. Meanwhile, level of education and foreign ownership has no effect on labor productivity of manufacturing industry in Central Java.

Keywords: labor productivity, wages, manufacturing industry, panel data.