

ABSTRACT

This study examines the relationship between inflation, real minimum wage adjustments, and public welfare (measured by the Poverty Rate/TPM and Gini Ratio) across Indonesia's 34 provinces from 2015–2025, using a balanced panel of 374 province-year observations. After re-indexing the CPI to a single base year (2012=100), the real minimum wage showed three phases: positive growth before the pandemic (2015–2019), contraction during the pandemic (2020–2022), and a partial post-pandemic recovery (2023–2025) that has not returned to the earlier trajectory.

Model selection tests consistently favored the Fixed Effects Model, with diagnostic issues (heteroskedasticity, autocorrelation, cross-sectional dependence) addressed via cluster-robust standard errors, supplemented by Driscoll-Kraay and wild cluster bootstrap checks. Results show inflation has no stable relationship with either welfare indicator; while the real minimum wage is significantly negatively related to both TPM and GINI in the baseline model, the poverty relationship holds more consistently across robustness checks than the inequality relationship, which is only conditionally supported.

These findings suggest minimum wage policies that preserve real purchasing power more consistently reduce absolute poverty than they equalize income distribution, and that inflation's effect on welfare is consistent with a wage-erosion mechanism, though this mediating causality is not formally tested.

Keywords: Inflation, Minimum Wage, Social Welfare, Poverty Rate, Gini Ratio, Panel Data, Indonesia.

