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Reformulation of Minimum Wage Policy and Its Implications Concerning Justice and Workers' Welfare in the Context Indonesian law

Article	Abstract
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INTRODUCTION

The connection between workers and employers is fundamentally a collaborative one aimed at producing needed products and services.¹ Labor is crucial for enhancing both national

¹ Asep Suryahadi et al., "MINIMUM WAGE POLICY AND ITS IMPACT ON EMPLOYMENT IN THE URBAN FORMAL SECTOR," *Bulletin of Indonesian Economic Studies* 39, no. 1 (April 2003): 29–50, <https://doi.org/10.1080/00074910302007>; Ali Maksum and Ahmad Sahide, "The Chinese Migrant Worker in Indonesia: The Local and Migrant Workers Context," *Jurnal Ilmiah Peuradeun* 7, no. 3 (September 30, 2019): 511, <https://doi.org/10.26811/peuradeun.v7i3.348>.

productivity and social welfare.² Workers play a vital role in transforming the capital owned by entrepreneurs—whether in financial terms or as raw materials—into essential commodities and services. An intriguing aspect to explore is the dynamics of the wage system between laborers and entrepreneurs. The structure of wages for workers serves as a policy and strategy that dictates the payment workers receive for their efforts, detailing how and to what extent they are compensated.

This system governs the distribution of wages from employers to employees, addressing various factors, including the amount, time, and payment method.³ Several types of wage systems can be implemented, such as those based on hours worked, performance outcomes, or piecework. The framework and level of compensation are intended to guide companies in establishing wages for employees who have been with the organization for over a year.

According to Article 1 Number 30 of Law Number 13 of 2003 concerning manpower, wages are a right of workers and employees expressed in monetary terms, paid by employers in accordance with a labor contract, agreement, or legal obligations. This includes provisions for additional benefits for employees and their families for work and/or services performed or to be performed. The Great Dictionary of the Indonesian Language (KBBI) defines earnings as compensation for labor rendered or as a reward for services provided.⁴

Wages represent the compensation paid by employer for the work performed by the workforce and typically serve as the primary motivation for workers to engage in their tasks. If the absence of wages, there is generally no employment relationship, such as the mutual cooperation that defines collaborative work.⁵ The value assigned to wages must align with what has been agreed upon regarding the work to be performed by the worker and the employer.⁶

The National Wage Council offers another perspective, defining wages as the compensation that employers provide to workers in exchange for services or labor offered now or in the future. This compensation ensures a decent standard of living and supports production efforts. Wages are usually expressed in monetary terms according to the established agreements, laws, and regulations, and are paid based on the stipulations within the employee-employer contract.⁷

Employers are obligated to compensate workers or laborers according to the terms outlined in their work agreements. Consequently, the the provision of wages does not rely on the specific

² Siti Kunarti et al., “The Legal Politics of Outsourcing and Its Implication for the Protection of Workers in Indonesia,” *Sriwijaya Law Review* 8, no. 1 (January 31, 2024): 1, <https://doi.org/10.28946/slrev.Vol8.Iss1.2750.pp1-19>.

³ MARGHERITA COMOLA and LUIZ DE MELLO, “HOW DOES DECENTRALIZED MINIMUM WAGE SETTING AFFECT EMPLOYMENT AND INFORMALITY? THE CASE OF INDONESIA,” *Review of Income and Wealth* 57, no. s1 (May 9, 2011), <https://doi.org/10.1111/j.1475-4991.2011.00451.x>; Hariyanto Hariyanto, Ahmad Rezy Meidina, and Mabarroh Azizah, “Decentralization and the Fulfilments of Children’s Rights: Challenges and Opportunities for Local Government in Indonesia,” *Lex Scientia Law Review* 8, no. 2 (November 30, 2024): 677–706, <https://doi.org/10.15294/lslr.v8i2.14373>.

⁴ Sulchan Syahid, *Kamus Besar Bahasa Indonesia*, 2000.

⁵ Imam Soepomo, *Pengantar Hukum Perburuhan* (Jakarta: Djambatan, 1980).

⁶ Vivi Alatas and Lisa A. Cameron, “The Impact of Minimum Wages on Employment in a Low-Income Country: A Quasi-Natural Experiment in Indonesia,” *ILR Review* 61, no. 2 (January 1, 2008): 201–23, <https://doi.org/10.1177/001979390806100204>; Nur Aksin, “UPAH DAN TENAGA KERJA (Hukum Ketenagakerjaan Dalam Islam),” *Jurnal Meta Yuridis* 1, no. 2 (July 2018): 72–79, <https://doi.org/10.26877/m-y.v1i2.2916>.

⁷ Jeremy R. Magruder, “Can Minimum Wages Cause a Big Push? Evidence from Indonesia,” *Journal of Development Economics* 100, no. 1 (January 2013): 48–62, <https://doi.org/10.1016/j.jdeveco.2012.07.003>; Achmad S. Ruky, *Manajemen Penggajian Dan Pengupahan Untuk Karyawan Perusahaan* (Jakarta: Gramedia Pustaka Utama, 2001).

results of the work completed.⁸ Typically, employers compensate workers or laborers in monetary form, with the predetermined amount specified in either a written or verbal agreement. an essential concept related to wages is the Regional Minimum Wage, which is crucial for workers and laborers to comprehend. This framework helps ensure that employees fully understand their rights and receive wages consistent with applicable standards.⁹

Wages are crucial for workers as they provide a financial means for supporting themselves and their families. For educated workers, wages also represent the return on the investment they have made in enhancing their skills and human resources. This is evident in the rate of return on their personal investment. Additionally, for some individuals, wages serve as a marker of social status and recognition of their contributions. From an employer's viewpoint, wages and all related labor costs are vital factors influencing the sustainability of their business and directly affect returns on investment. This, in turn, impacts the capacity for reinvestment, which ultimately influences future employment.

For the government, wages constitute a significant variable that affects various parameters, including inflation, job availability, unemployment rates, income equality, and overall economic growth. Moreover, wages play a role in economic, social, and political policies, with their effectiveness often heavily influenced by the economic and labor market conditions of specific regions or sectors.¹⁰

According to Article 7, paragraph (1) of Government Regulation (PP) No. 36 of 2021 concerning wages, there are different forms of wages: basic wages without allowances, basic wages plus fixed allowances, basic wages with both fixed and non-fixed allowances, and basic wages alongside non-fixed allowances. Wages in Indonesia are governed by Law Number 13 of 2003 concerning manpower. This Law outlines various aspects related to the workforce, including wages, working hours, workers' rights and obligations, and workforce protection. A critical section of this law is Articles 88 to 98, which specify regulations concerning wages, including minimum wage provisions. Furthermore, Article 88, paragraph (3) of Law No. 11 of 2020 concerning job creation, explicitly mandates the Central Government to establish wage policies to ensure workers' rights to a decent standard of living, one of which involves implementing a minimum wage.¹¹

⁸ Abdullah Muhammad Yahya, Moh Abdul Kholiq Hasan, and Andri Nirwana AN, "Rights Protection Guarantee for the Partners of Indonesian Gojek Company According to Labour Laws No 13 of 2003 and Maqasid," *Al-Manahij: Jurnal Kajian Hukum Islam* 16, no. 1 (May 30, 2022): 115–32, <https://doi.org/10.24090/mnh.v16i1.6382>; Fitriana Gunadi, "UPAH PROSES DALAM PEMUTUSAN HUBUNGAN KERJA," *Jurnal Hukum & Pembangunan* 50, no. 4 (May 2021): 858, <https://doi.org/10.21143/jhp.vol50.no4.2856>.

⁹ Utang Rosidin, Ardika Nurfurkon, and Dedy Pribadi Uang, "Fulfilling the Rights of Social Workers: Aspects of Social Security in Indonesia," *Khazanah Hukum* 6, no. 2 (August 3, 2024): 113–22, <https://doi.org/10.15575/kh.v6i2.33937>; Soedarjadi, *Hukum Ketenagakerjaan Di Indonesia* (Pustaka Yustisia, 2008).

¹⁰ Nugroho, "The Impact of Labor Law Reform on Indonesian Workers: A Comparative Study After the Job Creation Law," *Lex Scientia Law Review* 8, no. 1 (September 22, 2024), <https://doi.org/10.15294/lsr.v8i1.14064>; Yudo Swasono and Endang Sulistyarningsih, *Metode Perencanaan Tenaga Kerja Tingkat Nasional, Regional Dan Perusahaan* (Yogyakarta: BPFE, 1987); Marlan Hutahaean, "The Implication of A Divided or Unified Government for Public Policy Making: Indonesia During the Democracy Transition," *Jurnal Ilmiah Peuradeun* 5, no. 3 (September 28, 2017): 387, <https://doi.org/10.26811/peuradeun.v5i3.180>.

¹¹ Anindya Dessi Wulansari, "Indonesia's Cheap Wages Regime: The Political Economy of Minimum Wages Policy under Jokowi Presidency," *Fudan Journal of the Humanities and Social Sciences* 14, no. 3 (September 9, 2021): 417–44, <https://doi.org/10.1007/s40647-021-00324-8>; Hariyanto Hariyanto, Mabarroh Azizah, and Nurhidayatulloh Nurhidayatulloh, "Does the Government's Regulations in Land Ownership Empower the Protection of Human Rights?," *Journal of Human Rights, Culture and Legal System* 4, no. 2 (May 2024): 391–421, <https://doi.org/10.53955/JHCLS.V4I2.222>.

To implement the provisions outlined in Article 81 and Article 185, letter b of Law No. 11 of 2020 concerning job creation, a regulation governing wages from the government is necessary. Consequently, Government Regulation Number 36 of 2021 concerning Wages was enacted, which supersedes the earlier regulation, Government Regulation Number 78 of 2015. The prior regulation explained that the minimum wage was established to align with the requirements for a reasonable standard of living, considering economic development and productivity. In contrast, Government Regulation Number 36 of 2021 takes a different approach, determining the minimum wage based on economic and employment conditions (as noted in Article 25 of Government Regulation Number 51 of 2023).

In addition to being governed by Law Number 13 of 2003 concerning Manpower and the implementing regulations related to wages, wage regulations also possess a regional aspect that can be addressed through local regulations, particularly gubernatorial regulations, to better suit varying economic and social circumstances in different areas. This means that minimum wage amounts can differ across provinces, regencies, or cities, in accordance with the stipulations set forth in the respective regional regulations.

Therefore, along with consulting the Employment Law, it is crucial to review the regional regulations in effect for a specific area to understand the applicable minimum wage. This ensures that the minimum salary aligns with local conditions and complies with relevant local regulations. Numerous opinions advocate strongly for increasing the minimum wage.¹²

Numerous studies indicate that increasing the minimum wage has positive effects on health.¹³ Raising the minimum wage is linked to improved mental health, reduced smoking rates, and fewer missed workdays.¹⁴ When discussing wages, it is not just employers and workers, or laborers who have vested interests; the government and society at large also care about this system. Employers aim to effectively manage their capital to achieve the best possible outcomes. Workers and their families heavily rely on the wages they earn to cover essential needs such as food, clothing, housing and other expenses. In this context, the government focuses on wage policies and ensuring that they meet the standard of living for their population. Society encompasses the entire government structure, as well as the employers and workers who are influenced by the wage system in place.

Regarding wage formulation, there are differing tendencies between workers and employers. Workers typically seek higher wages to secure a better quality of life, while employers often aim to keep wages low, viewing them as a factor that can diminish profits. The higher the wages paid, the greater the expenses incurred by the employer, which consequently reduces potential profits.

Given these considerations, the specific aim of this study is to examine and evaluate how the minimum wage law functions and its impacts on employee's justice and welfare. The introduction below is designed to align with the theme of workers' justice and welfare in relation to minimum wage regulation.

¹² Suryahadi et al., "MINIMUM WAGE POLICY AND ITS IMPACT ON EMPLOYMENT IN THE URBAN FORMAL SECTOR"; Drake B, "Polls Show Strong Support for Minimum Wage Hike," Pew Research Center, 2014.

¹³ J. Paul Leigh, Wesley A. Leigh, and Juan Du, "Minimum Wages and Public Health: A Literature Review," *Preventive Medicine* 118 (January 2019): 122–34, <https://doi.org/10.1016/j.ypmed.2018.10.005>.

¹⁴ Aaron Reeves et al., "Introduction of a National Minimum Wage Reduced Depressive Symptoms in Low-Wage Workers: A Quasi-Natural Experiment in the UK," *Health Economics* 26, no. 5 (May 2017): 639–55, <https://doi.org/10.1002/hec.3336>.

Workers' justice and welfare are two essential pillars for sustainable employment development. Minimum wages serve as a key tool for achieving decent welfare for workers and reflect the government's commitment to promoting social justice. In the workplace, the dynamic between employers and employees mean that the wage system is not merely a matter of financial compensation; it also symbolizes the value of justice embraced by society.¹⁵

Law Number 13 of 2003 concerning Manpower and associated regulations have established minimum standards for employers when it comes to providing wages, aiming to safeguarding the rights of workers and their families. Minimum wages are not merely figures; they significantly influence the quality of life for workers, including their ability to afford essential needs such as clothing, food and housing. However, minimum wage regulations also involves a complex economic aspect, as employers are expected to offer reasonable wages while maintaining the sustainability of their business.

Multiple studies have demonstrated that raising the minimum wage positively affects various dimensions of workers' health, including enhancements in mental well-being, reductions in smoking rates, and decreased absenteeism (e.g. Cherkis 2021, Gardner 2016, National Employment Law Project 2021, Desmond 2019).¹⁶ This evidence indicates that fair wage policies can enhance both the physical and mental health of workers, ultimately benefiting productivity and social stability. Nevertheless, achieving workers' welfare through minimum wages frequently encounters challenges, particularly when the interests of workers and employers conflict. Workers typically seek higher wages as a form of acknowledgement for their contributions, while employers view wages as a cost that needs to be managed to sustain profitability.

Balancing the interests of workers for income with interests of employers striving for operational efficiency is a central concern in minimum wage legislation. In this regard, the goal of this study is to analyze and assess the dynamics of minimum wage regulation in Indonesia and its effects on workers' justice and welfare. By emphasizing justice, this study aims to provide a deeper insight into how minimum wage policy can help establish a balance between the interests of employers and employees, leading to inclusive and equitable welfare for all segments of society.

This introduction highlights the significance of minimum wage policy in relation to worker justice and welfare, underscoring how such policies reflect the efforts to find a balance between the needs of workers and the sustainability of employer businesses.¹⁷ The urgency of this research stems from the ongoing wage policy issues, as evidenced by the existing laws and regulations, including Law Number 13, Government Regulation (PP) No. 78 of 2015, Law No. 11 of 2020, Government

¹⁵ Nadhiva Putri Aprilia and Kadek Cahya Susila Wibawa, "Prospectus of Salary/Wage Subsidy Policy for Worker Welfare Improvement During Covid-19 Pandemic," *Jurnal IUS Kajian Hukum Dan Keadilan* 9, no. 3 (December 10, 2021), <https://doi.org/10.29303/ius.v9i3.899>.

¹⁶ David Neumark, "Higher Minimum Wages and Mixed Effects on Health," CEPR, 2023; Nor Hafizah Ibrahim et al., "Navigating Workplace Morality: Unveiling Trends in Counterproductive Work Behavior," *Jurnal Ilmiah Peuradeun* 13, no. 1 (January 30, 2025): 379, <https://doi.org/10.26811/peuradeun.v13i1.1051>.

¹⁷ Padang Wicaksono et al., "Minimum Wages and Labour-Intensive Industry: Experience from Indonesia," *The Indian Journal of Labour Economics* 68, no. 1 (March 23, 2025): 119–40, <https://doi.org/10.1007/s41027-025-00563-3>; Arifuddin Muda Harahap et al., "Social Justice in the Welfare of Private Lecturers: A Legal Review of Salaries, Certification, and BPJS Ketenagakerjaan in Indonesia," *Jurnal IUS Kajian Hukum Dan Keadilan* 12, no. 3 (December 31, 2024): 650–74, <https://doi.org/10.29303/ius.v12i3.1428>. focusing on three main aspects: salaries, certification, and social security through BPJS Ketenagakerjaan. In the context of social justice, this study identifies the challenges faced by private lecturers related to the provision of salaries that are not in accordance with the Regional Minimum Wage (UMR

Regulation (PP) No. 36 of 2021, Law No. 6 of 2023 and Government Regulation (PP) No. 51 of 2023. These regulations have failed to alleviate the resistance from the workers' movement and other stakeholders regarding wages. The call for a revision of the Decent Living Needs component used in minimum wage calculations arises from the fact that the current components do not accurately reflect true living needs.

RESEARCH METHODS

This study employs normative legal research methodology, utilizing relevant statutory provisions and doctrinal legal approaches, particularly in relation to the issues being examined.¹⁸ The methodology includes a statutory approach,¹⁹ a conceptual approach and a comparative approach. Data analysis for qualitative data is conducted using case-by-case analysis, where provisional results are reached for each case within every research topic. The chosen qualitative analysis method is phenomenological analysis. Following this, the findings from the phenomenological analysis are presented in the form of qualitative descriptions, which are then complemented by a juridical-philosophical analysis based on regulations pertinent to wage policies.²⁰

ANALYSIS AND DISCUSSION

Minimum Wage Policy as a Safety Net from an Employment Law Perspective

Since the late 1980s, the minimum wage has been a crucial element of the Indonesian government's employment policy.²¹ In the realm of employment law, employment relationships are formed through employment agreements, and earnings become the employee's right once their duties are completed.²² The minimum wage law has played a significant role in reducing wage inequality in Indonesia by increasing the earnings of individuals in the formal sector who previously earned below 90% of the minimum wage each month. However, this adjustment has had no impact on those whose monthly income was at least 90% of the minimum wage.²³ As a safety net, the minimum wage represents the lowest amount set by the government to prevent worker exploitation and ensure that they can earn a decent living. It establishes a minimum standard that employers must adhere to, preventing any worker from being paid below the poverty line. The minimum wage aims to shield groups of workers from inadequate and unsatisfactory wage structures.²⁴

Research conducted by Annette Bernhardt in the United States discovered violations of employment and labor laws across various industries in the three largest American cities due to

¹⁸ Ronny Hanitijo Soemitro, *Metodologi Penelitian Hukum Dan Jurimetri* (Jakarta: Ghalia Indonesia, 1990).

¹⁹ Johnny Ibrahim, *Teori & Metodologi Penelitian Hukum Normatif* (Malang: Bayu Media, 2013).

²⁰ Jonaedi Efendi and Johnny Ibrahim, "Legal Research Methods: Normative and Empirical," *Jakarta: Kencana Prenamedia Group, Cet 2* (2018).

²¹ Asep Suryahadi, "The Impact of Minimum Wage Policy on Wages and Employment in Developing Countries : The Case of Indonesia," 2001.

²² Siti Kunarti et al., "Perspective of Employment Relations and Wages in Labor Law and Islamic Law," *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam* 8, no. 1 (March 2024): 386, <https://doi.org/10.22373/sjhk.v8i1.17045>.

²³ Natalie Chun and Niny Khor, "Minimum Wages and Changing Wage Inequality in Indonesia," 2010.

²⁴ Ken Yamada, "Tracing the Impact of Large Minimum Wage Changes on Household Welfare in Indonesia," *European Economic Review* 87 (August 2016): 287–303, <https://doi.org/10.1016/j.eurocorev.2016.05.008>; Khairani, *Pengantar Hukum Perburuhan Dan Ketenagakerjaan (Disesuaikan Dengan Undang-Undang No 11 Tahun 2021 Tentang Cipta Kerja/Omnibuslaw*, Cetakan Ke (PT Rajagrafindo Persada, 2021).

low wages, affecting different categories of workers.²⁵ To reinforce minimum wage reform, these policies must be supported by stringent enforcement of compliance with wage laws.²⁶ Enforcement should not only be the responsibility of the government; collaboration with community organizations is also essential. Governmental entities and labor unions need to recognize each other's unique strengths, rather than trying to supplant one another. Such collaborative enforcement efforts should target specific industries and have strong community support.²⁷

Even in a labor market characterized by pure competition, a minimum wage, under suitable circumstances, can enhance economic efficiency.²⁸ Research conducted by David and Alan in Pennsylvania indicates that implementing a law mandating employers to pay a higher minimum wage will lead to increased employment.²⁹ Using boundary pair and entropy balancing methods, Christos Andreas Makridis found that improving worker welfare continuously enhances union competitiveness, which, in turn, encourages workers to elevate service quality standards.³⁰ In Honduras, poverty—especially extreme poverty—declined due to a significant increase in the minimum wage. However, this effect was more notable among households with low wages and primarily impacted those employed by large companies. In industries where minimum wage laws were not applied or enforced, poverty remained unchanged despite the wage increase. Thus, within the highly competitive formal sector of the global economy, the minimum wage can serve as a strategy for reducing poverty.³¹

The implementation of minimum wage policies can lead to unintended consequences, as seen in China. Following increase in China's minimum wage, private businesses reduced insurance and pension benefits and let go of temporary and low-skilled workers.³² Evidence shows that job losses are more pronounced among formal and low-skilled workers, especially in cases where minimum wages are legally mandated and strictly enforced. The potential for minimum wages to cause job losses is greater in contexts where these wages have a more substantial impact.³³

²⁵ A. Bernhardt, M. W. Spiller, and D. Polson, "All Work and No Pay: Violations of Employment and Labor Laws in Chicago, Los Angeles and New York City," *Social Forces* 91, no. 3 (March 2013): 725–46, <https://doi.org/10.1093/sf/sos193>.

²⁶ Arnab K. Basu, Nancy H. Chau, and Ravi Kanbur, "Turning a Blind Eye: Costly Enforcement, Credible Commitment and Minimum Wage Laws," *The Economic Journal* 120, no. 543 (March 2010): 244–69, <https://doi.org/10.1111/j.1468-0297.2009.02298.x>.

²⁷ Janice Fine, "Enforcing Labor Standards in Partnership with Civil Society: Can Co-Enforcement Succeed Where the State Alone Has Failed?," *Politics & Society* 45, no. 3 (September 2017): 359–88, <https://doi.org/10.1177/0032329217702603>.

²⁸ Bruce E. Kaufman, "Institutional Economics and the Minimum Wage: Broadening the Theoretical and Policy Debate," *ILR Review* 63, no. 3 (April 2010): 427–53, <https://doi.org/10.1177/001979391006300304>.

²⁹ David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania" (Cambridge, MA, October 1993), <https://doi.org/10.3386/w4509>.

³⁰ Christos Andreas Makridis, "Do Right-to-Work Laws Work? Evidence on Individuals' Well-Being and Economic Sentiment," *The Journal of Law and Economics* 62, no. 4 (November 2019): 713–45, <https://doi.org/10.1086/707081>.

³¹ T.H. Gindling and Katherine Terrell, "Minimum Wages, Globalization, and Poverty in Honduras," *World Development* 38, no. 6 (June 2010): 908–18, <https://doi.org/10.1016/j.worlddev.2010.02.013>.

³² Cheryl Long and Jin Yang, "How Do Firms Respond to Minimum Wage Regulation in China? Evidence from Chinese Private Firms," *China Economic Review* 38 (2016): 267–84, <https://doi.org/10.1016/j.chieco.2016.01.003>.

³³ David Neumark and Luis Felipe Munguía Corella, "Do Minimum Wages Reduce Employment in Developing Countries? A Survey and Exploration of Conflicting Evidence," *World Development* 137 (January 2021): 105165, <https://doi.org/10.1016/j.worlddev.2020.105165>.

Brazil's minimum wage law appears to be a potentially effective measure for combating poverty.³⁴ There are two common methods for setting the minimum wage: the government can establish a nationwide minimum wage, or it can emerge from collective bargaining agreements that apply to all workers.³⁵ In many developing countries, a significant portion of the wage distribution does not meet legal minimum wage requirements.³⁶ Because minimum wage laws can significantly enhance family financial security, they may also positively affect the health of expectant mothers and newborns.³⁷

Young workers, women, individuals with lower education levels, and those employed in service-related industries frequently earn minimum wage or less.³⁸ Research by John A. Kaufman in the USA suggests that raising the minimum wage may reduce social inequalities and seem to lower suicide rates among individuals with only a high school diploma. The effects tend to be more evident during periods of high unemployment.³⁹ Due to inadequate oversight and a lack of legal knowledge among both employers and employees, Arpangi and Tajudeen Sanni identified ongoing legal gaps concerning labor agreements in Indonesia.⁴⁰

Wage Formula and Minimum Wage Implications for Justice and Worker Welfare

In Indonesia, the wage policy was initially introduced as part of a poverty elevation strategy aimed at improving the living standards of workers and laborers. The goal was to equalize income and promote social justice by increasing wages for those earning below the minimum wage at the end of 1980. The constitution mandates that workers must be legally protected in their earnings to obtain a living wage.⁴¹ This approach aligns with Article 27, paragraph (2), and Article 28D of the 1945 Constitution.⁴² Consequently, it is essential to regulate minimum wages, which have the following implications:

³⁴ Sara Lemos, "Minimum Wage Effects across the Private and Public Sectors in Brazil," *The Journal of Development Studies* 43, no. 4 (May 2007): 700–720, <https://doi.org/10.1080/00220380701259947>.

³⁵ Tito Boeri, "Setting the Minimum Wage," *Labour Economics* 19, no. 3 (June 2012): 281–90, <https://doi.org/10.1016/j.labeco.2012.01.001>.

³⁶ Haroon Borat, Ravi Kanbur, and Benjamin Stanwix, "Partial Minimum Wage Compliance," *IZA Journal of Labor & Development* 4, no. 1 (December 2015): 18, <https://doi.org/10.1186/s40175-015-0039-1>.

³⁷ Kelli A. Komro et al., "The Effect of an Increased Minimum Wage on Infant Mortality and Birth Weight," *American Journal of Public Health* 106, no. 8 (August 2016): 1514–16, <https://doi.org/10.2105/AJPH.2016.303268>.

³⁸ US Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers," 2015.

³⁹ John A Kaufman et al., "Effects of Increased Minimum Wages by Unemployment Rate on Suicide in the USA," *Journal of Epidemiology and Community Health* 74, no. 3 (March 2020): 219–24, <https://doi.org/10.1136/jech-2019-212981>.

⁴⁰ Arpangi Arpangi and Tajudeen Sanni, "The State's Injustice: Failing to Protect Fixed-Term Workers' Rights," *Journal of Human Rights, Culture and Legal System* 5, no. 1 (March 2025): 158–86, <https://doi.org/10.53955/jhcls.v5i1.531>.

⁴¹ Yetniwati Yetniwati et al., "Rebuilding Justice: Reimagining Housemaid Protection through the Lens of Human Rights," *Journal of Indonesian Legal Studies* 9, no. 2 (December 2024): 1137–80, <https://doi.org/10.15294/jils.v9i2.19172>.

⁴² Nurina Merdikawati and Ridho Al Izzati, "Minimum Wage Policy and Poverty in Indonesia," *The World Bank Economic Review* 39, no. 1 (February 3, 2025): 191–210, <https://doi.org/10.1093/wber/lhae022>; Sofyan Hidayat and Ishviati Joenaini Koenti, "FORMULASI KEBIJAKAN PENETAPAN UPAH MINIMUM BERDASARKAN PERATURAN PEMERINTAH NOMOR 78 TAHUN 2015 TENTANG PENGUPAHAN DILIHAT DARI ASPEK KEADILAN," *Kajian Hasil Penelitian Hukum* 5, no. 1 (2022): 139–51, <https://doi.org/10.37159/jmh.v5i1.1723>.

1. Worker Protection

The primary aim of the minimum wage is to protect employees by ensuring they receive adequate compensation to fulfill their living needs. This provision helps reduce the risk of poverty among workers.⁴³

2. Improvement of Welfare

A fair minimum wage can enhance the well-being of employees and their families. It can lead to improved living conditions, as well as better access to education and healthcare.

3. Social Stability

Implementing a fair minimum wage can contribute to social stability by decreasing worker dissatisfaction with their economic circumstances.

4. Impact on Business

While the minimum wage is designed to protect workers, increasing it may also influence a company's operational costs. As a result, businesses may need to adjust their strategies to accommodate these changes.

5. Economic Sustainability

The effects of minimum wages can also impact the economic sustainability of a region or country. Therefore, determining minimum wage levels requires careful consideration of various factors to ensure balance.

From a labor law perspective in Indonesia, minimum wages are governed by Law Number 13 of 2003 concerning Manpower and the Government Regulation on the Determination of Minimum Wages. Minimum wages are a fundamental right for workers, and violations of these regulations can lead to legal consequences.

Analysis of Government Regulation Number 78 of 2015 Concerning Wages

Government Regulation Number 78 of 2015 concerning Wages establishes the minimum wage and involves a tripartite body that formulates wage policies, known as the Wage Council. The council is a non-structural institution that operates on a tripartite basis. The components of the Decent Living Needs (KHL) in this regulation are evaluated every five years, as detailed in Article 43, paragraph (5). Consequently, factors such as productivity and economic growth are considered when determining the minimum wage, which is aligned with the Decent Living Needs (KHL). The formula for the minimum wage is applied to establish the minimum wage, which will be aligned with the same amount as the minimum payment for the ongoing year.⁴⁴

The formula for calculating the current year's minimum wage incorporates the existing minimum wage, the GDP growth rate for that year, and the national inflation rate to arrive at the minimum wage figure. The determination of the minimum wage under Government Regulation (PP) No. 78 of 2015 is conducted annually, with adjustments based on decent living needs, productivity, and economic growth. Decent living needs represents the basic requirements for a single worker or laborer to live decently for one month.

⁴³ Imam Asmarudin et al., "Initiating the Reform of Principle Norms in the Formation of Laws in Indonesia," *Jurnal IUS Kajian Hukum Dan Keadilan* 12, no. 2 (August 19, 2024): 208–26, <https://doi.org/10.29303/ius.v12i2.1390>.

⁴⁴ Hariyanto Hariyanto, Muhammad Mutawalli Mukhlis, and Daud Rismana, "The Role and Authority of the Deputy Regional Head According to Islamic Principles within the Framework of Regional Government Law," *JURIS (Jurnal Ilmiah Syariah)* 24, no. 1 (February 7, 2025): 13, <https://doi.org/10.31958/juris.v24i1.12678>.

Additionally, the components of decent living needs consist of various types of essential living expenses that undergo a review every five years. The minister evaluates these elements and categories of living necessities while considering the findings from National Wage Council research. The data and information used in the National Wage Council report are sourced from accredited statistical agencies. Further, productivity and economic growth are factored into the establishment of the minimum wage, based on the analysis of diverse living needs. Additional regulations govern the criteria for a satisfactory quality of life, as determined by Ministerial Regulation.

Analysis of Government Regulation Number 36 of 2021 Concerning Wages

Government Regulation Number 36 of 2021 replaces the previous Government Regulation Number 78 Year 2015. According to Article 21, paragraph (1) of Government Regulation Number 36 of 2021, employers are required to establish and implement wage structures and scales within their companies while considering employee ability and productivity. This indicates that the factors used to evaluate or measure compensable positions (compensable factors) in developing wage structures and scales include the training, expertise, and experience necessary for the job.⁴⁵

Employers are particularly concerned about the absence of a wage structure and scale because they believe that as employees work longer, their wages should correspondingly increase. This is perceived as detrimental to employers, especially if the workforce becomes unproductive.⁴⁶ Nevertheless, in practice, trade unions participate in the development of these wage structures through negotiations in collective work agreements or consultations regarding company regulations.

Provincial minimum wages are determined based on local economic and employment conditions. as stated in Article 25 of Government Regulation (PP) Number 36 of 2021, the minimum wage includes: a. Provincial minimum wage; b. Regency/city minimum wage subject to specific conditions. The minimum wage is established based on the prevailing economic and employment circumstances. Factors such as purchasing power parity, labor absorption rate, and median salary are all considered in assessing these conditions.

Each year, the minimum wage amount is adjusted. Changes to the minimum wage in relevant region are set within a particular range between the upper and lower limits. The regency or city minimum wage reflects regional economic growth, while it also entails specific conditions, including regional economic growth or inflation relevant to that regency or city. Data regarding economic growth, inflation, purchasing power parity, labor absorption rates, and median wages are collected from authorized institutions.⁴⁷

⁴⁵ Any Suryani Hamzah, "Strengthening The Relationality of Heteronomous and Autonomous Legal Rules in Workers' Decent Wage Law Policies (An Attempt to Create a Dignified Tripartid Ecosystem)," *Jurnal IUS Kajian Hukum Dan Keadilan* 11, no. 2 (August 25, 2023), <https://doi.org/10.29303/ius.v11i2.1241>.

⁴⁶ Jean Elvardi, Arya Putra Rizal Pratama, and Muhammad Ramzy Muliawan, "THE URGENCY FOR RATIFICATION OF THE 1970 ILO MINIMUM WAGE FIXING CONVENTION IN THE TIME OF FOURTH INDUSTRIAL REVOLUTION," *Jurnal Hukum Bisnis Bonum Commune*, August 3, 2021, 226–34, <https://doi.org/10.30996/jhbbc.v4i2.5394>; Arrista Trimaya, "PEMBERLAKUAN UPAH MINIMUM DALAM SISTEM PENGUPAHAN NASIONAL UNTUK MENINGKATKAN KESEJAHTERAAN TENAGA KERJA," *Aspirasi: Jurnal Masalah-Masalah Sosial* 5, no. 1 (2014), <https://doi.org/https://doi.org/10.46807/aspirasi.v5i1.448>.

⁴⁷ Hariyanto Hariyanto, Idamatussilmi Idamatussilmi, and Daud Risma, "The Government's Role in Legal Protection of Land Ownership: Urutsewu Case," *Legality : Jurnal Ilmiah Hukum* 32, no. 2 (August 6, 2024): 277–91, <https://doi.org/10.22219/ljih.v32i2.34254>.

The regent or mayor must inform the governor that the regency or city minimum wage for the upcoming year should match the current year's minimum wage if the existing minimum wage exceeds the upper limit established for that regency or city. The minimum wage may be determined based on either time units or output units. Time-based wages are calculated hourly, daily, or monthly. The formula for calculating hourly wages is: $\text{hourly wages} = \text{monthly wages} \div 126$.

Determining hourly wage applies only to part-time workers or laborers paid according to a contract between the employer and the worker, and these wages must not fall below the result produced by the hourly wage formula.⁴⁸ In contrast, daily wages can be computed based on a working time of 6 days, calculated as a month's wages divided by 25, while a 5-day workweek corresponds to a month's wages divided by 21. The minimum wage itself comprises local regency or city pay, accompanied by specific requirements alongside the provincial minimum wage.

To establish the minimum wage, the regional government typically includes a tripartite approach, involving representatives from the government, workers, and employers in the determination process. The following factors are generally considered in the minimum wage determination formula:

1. Regional Economic Growth
2. Inflation Rate: This is a critical in calculating the minimum wage. The minimum wage needs to be regularly adjusted to keep pace with the rising costs of goods and services.
3. Social Considerations: The government also takes into account social factors such as worker welfare, poverty levels, and income inequality when setting minimum wages.

Additionally, for important provisions found in the Government Regulation on Wages are noteworthy:

1. Government Regulation (PP) No. 36 of 2021 revokes Government Regulation (PP) No. 78 of 2015 concerning Wages.
2. Affirmation of non-wage income.
3. Wage scales and structures for micro and small businesses.
4. Penalties for local governments that fail to comply with this federal regulation while enforcing minimum wage standards.

In accordance with legal provisions regulating the minimum wage, administrative sanctions will be imposed on provincial and regency or city governments that violate Article 81 of Government Regulation (PP) No. 36 of 2021 by continuing to implement minimum wage standards that contradict this regulation.

Analysis Government Regulation Number 51 of 2023 Concerning Wages

Government Regulation No. 51 of 2023 introduces several wage systems in Indonesia. This regulation revises Government Regulation (PP) No. 36 of 2021 concerning Wages and is set to take effect on November 10, 2023, according to the official website of the House of Representative of

⁴⁸ Waspiah Waspiah et al., "From Bean to Benefit: How Indonesian Intellectual Property (IP) Law Protects the Coffee Farmers in Indonesia?," *Jambe Law Journal* 7, no. 2 (December 4, 2024): 429–53, <https://doi.org/10.22437/home.v7i2.443>; Martin Rama, "The Consequences of Doubling the Minimum Wage: The Case of Indonesia," *ILR Review* 54, no. 4 (July 1, 2001): 864–81, <https://doi.org/10.1177/001979390105400407>.

the Republic of Indonesia. With the implementation of Government Regulation No. 51 of 2023, Government Regulation (PP) No. 78 of 2015 concerning Wages has been officially revoked.⁴⁹

Government Regulation (PP) are laws in Indonesia mandated by the President to ensure proper implementation. The content of these regulations provides the necessary framework for law enforcement. Regulations concerning wages establish guidelines and stipulate rules, including the formula for calculating the minimum wage and its application. Government Regulation (PP) Number 51 of 2023 makes several amendments to Government Regulation (PP) Number 36 of 2021, particularly affecting the provisions related to the minimum wage calculation formula.

Article 26 of Government Regulation (PP) Number 51 of 2023 outlines the new minimum wage calculation formula. This latest regulation eliminates the use of upper and lower limits when determining the minimum wage. Instead, the government has introduced new variables in the calculation formula for the minimum wage, including economic growth, inflation, and specific indexes.⁵⁰ The updated formula states that the current year's minimum wage will be the minimum wage for the following year, plus the adjustment value for the upcoming year. The minimum wage for 2025 has been set with a 6.5% increase compared to the provincial minimum wage (UMP) for 2024, as per the Minister of Manpower Regulation No. 16 of 2024. The new rate is scheduled to take effect on January 1, 2025.

To determine the minimum wage adjustment value as outlined in the minimum wage calculation formula, the adjustment value for the upcoming year equals inflation plus economic growth multiplied by the alpha value of the current year's minimum wage.⁵¹ The current α (alpha) ranges from 0.10 to 0.30. The value of α can be established by the provincial wage council or regency/wage council, considering:

1. Labor absorption rate
2. Average or median wage

Additionally, other factors relevant to employment conditions may be taken into account when determining α . If the minimum wage adjustment value amounts to zero or less, the minimum wage to be applied will remain the same as the current year's value.⁵²

CONCLUSION

The minimum wage has long been a contentious issue in the relationship between workers/laborers and employers, often leading turmoil and conflict in industrial relations. The establishment

⁴⁹ Sartika Intaning Pradhani, "Traditional Rights of Indigenous People in Indonesia: Legal Recognition and Court Interpretation," *Jambe Law Journal* 1, no. 2 (July 12, 2019): 177–205, <https://doi.org/10.22437/jlj.1.2.177-205>.

⁵⁰ Siti Fatimah, Jamal Wiwoho, and Isharyanto Isharyanto, "Global Perspectives on Freedom of Expression in Environmental Governance: Legal Implications and Challenges," *Jambe Law Journal* 7, no. 2 (December 30, 2024): 481–507, <https://doi.org/10.22437/home.v7i2.456>.

⁵¹ Muhammad Mutawalli Mukhlis et al., "Regional Autonomy System: Delegation of Authority and Power of Regional Government in Indonesia in the Study of Fiqh Siyasah," *Al-Istinbath: Jurnal Hukum Islam* 9, no. 2 (September 30, 2024): 505–26, <https://doi.org/10.29240/jhi.v9i2.9709>.

⁵² Sugeng Dwiono, A. Kumedi Ja'far, and Slamet Haryadi, "An Analysis on the Omnibus Law and Its Challenges in Indonesia: The Perspectives of the Constitutional and the Islamic Law," *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam* 8, no. 2 (May 11, 2024): 706, <https://doi.org/10.22373/sjhk.v8i2.22720>; Kunarti et al., "The Legal Politics of Outsourcing and Its Implication for the Protection of Workers in Indonesia."

of minimum wage standards frequently favors employers, which can ultimately result in worker strikes or even dismissals due to disagreements over implementing the minimum wage. According to Article 26 of Government Regulation Number 51 of 2023, amending Government Regulation Number 36 of 2021 concerning Wages, the minimum wage formulation is based on variables of economic growth, inflation, and a specific index known as “ α ”. This α (alpha) index is set within a range of 0.10 to 0.30. Through Government Regulation 51 of 2023, the government enhances the role of the Wage Council at both provincial and regency/city levels, allowing for deliberations on certain index calculations in the form of alpha values from 0.1 to 0.3. This provides room for discussions involving workers through trade unions and employers through their representatives. Although the determination of the alpha value is left to individual regions, the resulting wages often fail to ensure justice and welfare for workers, as increases are disproportionately low compared to the inflation rate. Workers hope that a rise in the minimum wage will enhance purchasing power and stimulate positive national economic conditions; however, the reality remains far from this expectation. The 2025 Minimum Wage has been set with a 6.5% increase from the 2024 regional minimum wage, in line with Minister of Manpower Regulation Number 16 of 2024. This determination will take effect on January 1, 2025. A fair wage should reflect the value of the work performed, factoring in the level of difficulty, responsibility, and skills required, and must not be less than the regional minimum wage.

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