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Evaluation of the Minimum Wage Policy (UMP) of DKI Jakarta Province in 2022

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Abstract

The implementation of a minimum wage policy has the potential to alleviate wage inequality in various regions by increasing the wages of low-income workers and promoting more equitable income distribution. However, setting the minimum wage requires careful consideration to avoid setting it too low, which would result in workers struggling to meet basic living standards, or too high, which could lead to job loss. In 2021, a wage problem emerged in the DKI Jakarta Province when the proposed increase in the UMP for 2022 was only 0.85%, which was lower than the inflation rate of 1.14%. This discrepancy runs counter to the wage theory, which suggests that wages should increase alongside living standards. Consequently, the Governor of DKI Jakarta Province revised the UMP policy for 2022. This study aims to evaluate the determination of the 2022 DKI Jakarta Provincial UMP policy. The method used in this research is qualitative. The findings reveal that the revision of the UMP policy in 2022 created uncertainty, as an entrepreneur filed a lawsuit that is still pending, even though the UMP for 2023 has been decided. Therefore, this research underscores the importance of a well-formulated policy to ensure that the minimum wage policy achieves its intended goals.

Keywords: Income Distribution Theory; Minimum Wage Policy; Policy Formulation; UMP Policy; Wage Inequality

Introduction

Employment in Indonesia is currently a hot topic and is receiving a lot of attention from society. Some labor-related regulations have recently changed, taking into account the conditions of volatility, uncertainty, complexity, and ambiguity (VUCA), along with the emergence of the COVID-19 pandemic. These conditions have caused a slowdown in the global business economy, leading to an average economic growth rate of 5.7% in Indonesia over the past five years. However, there are still issues such as overlapping regulations, a high unemployment rate, low productivity among MSMEs, and more, that need to be addressed (Head of Industrial Relations and Worker Welfare, 2020). In response, the Government of Indonesia has drafted and established the Law Number 11 of 2020 concerning Job Creation.

Every worker in their employment relationship with an employer is entitled to receive wages for the work they have done. The wages must be given with a wage system without discrimination in accordance with applicable laws and regulations. The government has established a wage policy to ensure that workers have a decent livelihood. Wage policies vary in each region, as they have a minimum wage limit that is adjusted to economic and employment conditions in the area. In this case, the governor is obliged to set the provincial minimum wage (UMP) and can also set the district/city minimum wage with certain conditions. However, the wage policies in setting minimum wages in each region in Indonesia have not been able to overcome the problems that exist in society, especially for workers related to wages (Sudja'i & Mardikaningsih, 2021). These problems include many workers receiving wages below the minimum wage that has been set, wages that are still not enough to meet the needs of life, companies that do not apply the minimum wage limit, and the government not conducting socialization in the community and not supervising the application of wage provisions.

DKI Jakarta, as the state capital, is one of the regions used as a benchmark in the development of UMP increases. The governor of DKI Jakarta must annually increase UMP in line with the increase and the need for an increasing standard of living in the community. The historical recap of the determination of the increase in the DKI Jakarta Provincial Minimum Wage for the 2004-2022 period, based on data presented by APINDO/KADIN and the Federation of Trade Unions in the audience with the National Wage Council, is as follows:

Table 1. History of the determination of the increase in the DKI Jakarta Provincial Minimum Wage for the 2004 - 2022 Period

Year (UMP) Inflation t GDP t Have not used PP No 78 of 2015 2004 671.550 6,3% - - 2005 711.843 6,0% - - 2006 819.100 15,1% - - 2007 900.560 9,9% - - 2008 972.604 8,0% - - 2009 1.069.865 10,0% - - 2010 1.118.000 4,5% - - 2011 1.290.000 15,4% - - 2012 1.529.150 18,5% - - 2013 2.200.000 43,9% - - 2014 2.441.000 10,9% - - 2015 2.700.000 10,6% - - 2016 3.100.000 14,8% 6,9% 4,6% Results of the Wage Board Agreement 2017 3.355.750 8,3%
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2022 4.641.854 5,1% 1,6% 3,5% Using National Data

Source: DKI Jakarta Provincial Manpower and Energy Office, 2022

Volume 6, Issue 5

Based on the table above, the determination of UMP for the 2004-2015 period used the Decent Living Needs (KHL) method, as specified by the Minister of Manpower Regulation Number 21 of 2016 concerning KHL, while the 2016-2021 period used the formula from PP Number 78 of 2015 and PP No. 36 of 2021, which set upper and lower limit values. Notably, DKI Jakarta's UMP has increased every year from 2004 to 2022. For the 2022 period, the Governor determined the UMP amount to be IDR 4.453.935.536 via Governor Decree 1395 of 2021, based on PP Number 36 of 2021. However, the UMP increase was only around 0.85% from the previous year, which was lower than DKI Jakarta's inflation rate for the current year, which stood at 1.14%. This contradicts the subsistence theory proposed by David Ricardo, which holds that wages depend on workers' minimum needs to survive. Therefore, if the standard of living increases, wages must also increase. Consequently, UMP cannot be considered adequate if the percentage increase is below the inflation rate.

The Governor of DKI Jakarta Province considers the UMP policy outlined in Governor Decree Number 1395 of 2021 unfair to workers because of the small increase in UMP size, which is deemed unfeasible (Paat, 2021). As a result, the UMP determination policy for 2022 was revised through the issuance of Governor Decree 1517 of 2022, which increased the UMP percentage to 5.11% from the previous year. However, the policy revision faced opposition from entrepreneurs through the Provincial Management Council (DPP) of the Indonesian Employers Association (APINDO). APINDO filed a lawsuit with the State Administrative Court, and the PTUN granted the lawsuit, prompting the Governor of DKI Jakarta Province to appeal to the High Administrative Court (PTTUN) (Naufal, 2022).

This ongoing dispute means that the UMP determination policy for 2022 does not have a fixed and binding legal force to date. Thus, this study aims to evaluate the DKI Jakarta Provincial UMP policy determination for 2022.

Theoretical Review

Manpower is an essential element in nation-building, and it refers to the power provided by human physical and/or mental labor rather than machines (Hassan, 2011). According to Law No. 13 of 2003 Article 1 paragraph 2, "labor is everyone who is able to do work to produce goods and or services both to meet their own needs and for the community." The same law defines "worker" as "everyone who works by receiving wages or other forms of compensation." Therefore, a worker or laborer is anyone who works and receives compensation for their work.

Wages are one of the main reasons people work to survive (Manzoor et al., 2021). According to Tjiptoherijanto (2003), wages have two benefits for workers: as a reward or recompense for the output produced and as a stimulant for increasing productivity. One of the oldest theories related to wages is the subsistence theory or the theory of the necessities of life, proposed by David Ricardo. This theory explains that the wages received by unskilled workers are only influenced by the need to cover the living costs of workers and their families. In the labor market, the wage level fluctuates at the subsistence level. This theory is also known as a long run, where the supply of labor remains constant in the long-term. If the wage level rises above the minimum cost of living, the supply of labor will increase and reduce the wage rate. On the other hand, if the wage level is below the minimum cost of living, it will reduce the labor supply and raise the wage level back towards the subsistence level (Deliarnov, 2009).

The wage theory is one of the three elements in David Ricardo's theory of income distribution, along with the lease theory and profit theory. The lease theory refers to the differential lease theory developed by Malthus, which states that rent comes from differences in soil fertility. As soil fertility decreases, the differential rent will increase. The wage theory, on the other hand, posits that wages depend on the minimum needs of workers to survive, so if the standard of living increases, the wages paid also



Volume 6, Issue 5 May 2023

increase. Finally, the profit theory states that profit is the residual value left over after capitalists pay their workers wages and rent to the landowner (Pressman & Santoso, 2000).

It can be concluded that the theory of income distribution is the division of the results of all production, which is then presented as wage theory, land rent theory, and profit theory. In Indonesia, wages are defined as payments made by workers/employees during the time that the worker/laborer is employed or considered to be working. Indonesia has a wage policy based on the standard of living for workers. Law Number 13 of 2003 concerning Manpower stipulates that the minimum wage must be based on the standard of decent living needs (KHL). Article 1 Paragraph 1 of the Regulation of the Minister of Manpower Number 1 of 1999 defines the minimum wage as "the lowest monthly wage which includes basic salary and fixed allowances...". Therefore, it can be concluded that the minimum wage policy is a wage system that has been widely applied in various countries and can be seen from two sides. First, the minimum wage serves as a protective tool for workers to ensure that the value of wages received does not decrease in meeting the needs of daily life. Second, the minimum wage is used as a protective tool for companies to maintain worker productivity (Sulistiawati, 2013).

Research Methods

The researchers used a qualitative approach in this study because it was exploratory and could help the researchers when they did not know the important variables in the study. The source of data in the process of writing this research came from secondary data. Data collection techniques in this study were carried out based on the study and analysis of data and secondary information. This was used because this research was only carried out with literature studies without conducting field studies. In conducting a literature study, the researchers collected data by conducting studies on literature, books, notes, reports, and documents related to the problem to be solved (Nazir, 2009). The literature helped to strengthen the research problem, but did not limit participants' views to qualitative research (Creswell & Creswell, 2017). Qualitative data analysis consisted of three lines of activities that occurred simultaneously, namely data reduction, data presentation, conclusion drawing or verification. These three lines of activity were the data analysis techniques used in this study (Miles et al., 2018).

Results and Discussion

In the current disruptive era, characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), and compounded by the Covid-19 pandemic causing chaos in various aspects of people's lives, employment has been significantly affected. The most important elements in understanding labor are workers/employees and entrepreneurs. This is not only limited to Indonesia but also related to globalization, where foreign workers often fill positions in companies. The use of foreign workers has been a topic of debate in Indonesia, where it is considered more profitable than hiring local workers, despite the government's explanation that it is a transfer of technology from a more advanced country to Indonesia.

The welfare of workers/employees is a vital issue that is discussed every year. When it comes to welfare, one of the fundamental elements that comes to mind is salary or wages. Wage policy has always been a dynamic issue in labor conditions, particularly in DKI Jakarta Province. In this case, the government must maintain business continuity while still paying attention to the welfare of labor workers. In other words, the effectiveness of wage policy can be determined by the employers' continued growth and the increasing prosperity of workers/employees.

a.DKI Jakarta Provincial Wage Conditions

DKI Jakarta Province, which is the center of Indonesia's trade economy, is certainly a barometer that becomes a benchmark for the Indonesian nation in taking policies, especially regarding policies regarding wages through the determination of the Minimum Wage. In 2021, the determination of wage policy in DKI Jakarta Province experienced dynamics that were influenced by two factors. Firstly, there were differences in interpretation of Law No. 11 of 2020 concerning Job Creation and its Implementing Regulations between Trade Unions/Trade Unions and Employers since the issuance of the Constitutional Court (MK) decision. After the Constitutional Court issued the Constitutional Court decision Number 91/PUU-XVIII/2020 concerning the examination of Law Number 11 of 2020 concerning Job Creation which was proven unconstitutional in its ruling, but was still enforced to avoid legal uncertainty, there were differences in interpretation of Law Number 11 of 2020 concerning Job Creation and its implementing regulations between Trade Unions/Trade Unions and Employers. One of these differences occurred in relation to the 2022 minimum wage rules, namely Government Regulation Number 36 of 2021 concerning Wages. The Confederation of Indonesian Trade Unions (KSPI) stated that the Government Wage Regulation (PP) was legally flawed and could not be enforced, which is in accordance with point number 7 of the Constitutional Court decision, which states as follows: "to suspend all actions/policies that are strategic and have a broad impact and are not allowed to issue new implementing regulations related to the Job Creation Law."

The Chairman of KSPI stated in a press conference that the determination of UMP and MSE throughout Indonesia is still based on the old law, namely Law Number 13 of 2003 and Government Regulation Number 78 of 2015. Therefore, trade unions are calling on all Governors to revise the 2022 provincial minimum wage, which was announced on November 21, 2021, because it refers to Government Regulation Number 36 of 2021 concerning Wages. On the other hand, entrepreneurs who are members of the Indonesian Employers Association (APINDO) believe that Government Regulation Number 36 of 2021 concerning Wages remains valid because it was determined before the Constitutional Court decision. This view is also supported by Firman Subagyo, a member of Commission IV of the House of Representatives, who considered that PP Number 36 of 2021 remains valid and applicable in accordance with the law, except for those that have not been enforced (Karunia, 2021).

Secondly, the policy implementation dynamics in DKI Jakarta Province in 2022 are influenced by economic growth and inflation conditions during the Covid-19 pandemic. The pandemic caused a drastic decline in economic growth in the first quarter of 2020, which was recorded at 2.97% (year over year (yoy)), lower than the estimated 4.4% by Bank Indonesia. The declining economic growth is attributed to the impact of handling the spread of the Covid-19 virus, affecting all aspects of life and economic activities, including production, distribution and consumption, investment, and foreign trade (exports and imports). Bank Indonesia predicts that the impact of handling the Covid-19 pandemic will be felt from April to June 2020, but the impact will be felt faster starting from March 2020. In April 2020, the Central Statistics Agency (BPS) also recorded inflation of 0.09% month to month. The decline in economic growth and inflation during the pandemic led to a decrease in purchasing power in several regions. Finance Minister Sri Mulyani Indrawati estimates that people's purchasing power or household consumption level will sharply decline in the second quarter of 2020, weaker than the realization of purchasing power in the first quarter of 2020 (Kusuma, 2020). Based on BPS data, household consumption level fell to 2.84% in the first quarter of 2020. The decline in people's purchasing power is due to the wider large-scale social restriction (PSBB) policy. While there are some components of household consumption that have increased, such as health consumption, education, housing, and household appliances, they were not enough to offset the decline in consumption of clothing, staples, other primary needs, care services, as well as transportation and communication.

Volume 6, Issue 5

The impact of the decline in people's purchasing power has led to an increase in layoffs for workers during the pandemic. Companies are implementing these layoffs to reduce their losses. In addition, there are laws and regulations in the labor field, such as Law Number 13 of 2003, which was later amended into Law Number 11 of 2020 concerning Job Creation, and derivative regulations that allow companies to terminate their workers' employment if they meet the criteria for termination. The layoffs carried out by companies have increased unemployment in Indonesia, which rose to 9.77 million people as of August 2020. The working population was 128.45 million people, which decreased by 0.31 million people from August 2019 (Akhmad & Rachmawati, 2021).

Third, the dynamics of wage policy implementation are also influenced by the rising world oil prices, prompting the central government to increase fuel prices in 2022. According to the Financial Memorandum and the State Budget (2022), before the Covid-19 pandemic, world crude oil prices were only around US \$60 per barrel. However, the price rose dramatically to reach US \$113.50 per barrel in March 2022, triggered by geopolitical tensions such as the Russia and Ukraine war (Ministry of Energy and Mineral Resources, 2022). Finance Minister Sri Mulyani Indrawati explained that the government has increased the energy compensation and subsidy budget, including for fuel, by three times what was budgeted in the 2022 State Budget. Originally, it was only IDR 152.2 trillion, but it is now IDR 502.4 trillion. This figure still has the potential to rise above IDR 600 trillion if world crude oil prices remain high (Merdeka, 2022). Thus, the increase in fuel prices has increased the cost of living for workers, and there is a need for a policy of increasing the minimum wage.

b. Determination of UMP in 2022 in DKI Jakarta Province

Based on media reports at the end of 2021, workers did not receive a sufficient increase in the UMP, where the average increase in the 2022 minimum wage was estimated to be 1.09%, which is generally below the inflation rate (Theodora, 2021). This is not in accordance with the subsistence theory proposed by David Ricardo, where wages should depend on the minimum needs of workers to survive. Thus, if the standard of living increases, the wages paid should also increase. The DKI Jakarta Provincial Government then revised and raised the UMP level, but entrepreneurs considered the UMP increase burdensome because business conditions were not running well during the pandemic. The impact of the UMP increase can trigger layoffs because with the increase in UMP, it will increase the company's operational costs. In addition to layoffs, another impact of the UMP increase is the transfer of companies or factories to provinces with lower minimum wages.

The determination of UMP in DKI Jakarta Province is carried out through a Wage Board session. Based on the results of the DKI Jakarta Provincial Wage Board Session on November 15, 2021, there were three proposals regarding the minimum wage in DKI Jakarta Province in 2022, as follows:

- 1. The Entrepreneurs' Element proposes the amount of UMP for 2022 of IDR 4.453.935.536 (0.85% / IDR 37,748) based on Government Regulation No. 36 of 2021
- 2.Government elements propose the amount of UMP in 2022 amounting to IDR 4.453.935.536 (0.85% / IDR 37,748) based on Government Regulation Number 36 of 2021
- 3. The Workers' Union/Labor Union element proposes the amount of the 2022 UMP of IDR 4.573.845 (3.57% / IDR 157,658) based on the DKI Jakarta Inflation value of 1.14% and DKI Jakarta Economic Growth of 2.43% (Head of Industrial Relations and Workers' Welfare Division, 2020)

Furthermore, out of the three proposals, the Governor of DKI Jakarta Province set the minimum wage of DKI Jakarta Province in Governor Decree Number 1395 of 2021 concerning UMP for 2022 on November 19, 2021, which was IDR 4.453.935.536 in accordance with the calculation in PP Number 36 of 2021. However, with many dynamics arising from the determination of the UMP, the Governor of DKI Jakarta Province, with his discretion, chose to revise the UMP in 2022 through Governor Decree Number

1517 of 2021 to IDR 4,641,854. This was motivated by several considerations. First, the increase in DKI Jakarta's UMP, if you follow the calculation formula in PP Number 36 of 2021, was only 0.85% or IDR 37,749, namely from the original IDR 4.416.158 to IDR 4.453.945. The increase in UMP turned out to be lower than DKI Jakarta's inflation in the current year, which was 1.14%. Thus, this could affect people's purchasing power in meeting the needs of decent living for workers. Second, in the last 6 years, the average increase in DKI Jakarta's UMP has been 8.6%. This can be seen in the chart below:

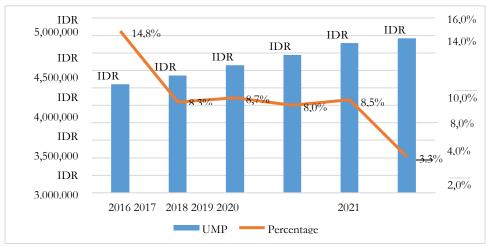


Figure 1. the Increase in UMP of DKI Jakarta Province over the Last 6 Years Source: processed by Author, 2023

Based on the graph above, it can be seen that the average increase in UMP from 2016-2021 was 8.6%. Therefore, it would be contradictory to the policies used for calculating UMP increases if the increase for DKI Jakarta UMP in 2022 was only 0.85% from the previous year. This can be considered a premature policy. In general, a country seeks to achieve better economic growth than in previous years, but economic growth must be felt by all people, not just a few with worker welfare being a benchmark from the wages they receive.

Third, there is a dynamic economic growth where not all sectors have decreased; some have even increased (transportation and warehousing, information and communication, financial services, health services, and social activities). Fourth, based on Bank Indonesia (BI) projections, Indonesia's economic growth in 2022 will reach 4.7-5.5%, up from 3.2-4.0% in 2021, driven by continued global economic improvements that have an impact on strong export performance and increasing domestic demand from consumption and investment (Bank Indonesia, 2021).

Fifth, the Institute for Development of Economics and Finance (Indef) has revised Indonesia's economic growth projection for 2022 from 5% year-on-year (yoy) to 5.1% (yoy) (Antara, 2022). Sixth, a study by the Ministry of National Development Planning (PPN) / Bappenas showed that the optimal average increase in UMP is 5% which can encourage public consumption up to 180 trillion Rupiah per year (Rahman Halim, 2021).

Seventh, the specificity of the DKI Jakarta Provincial Government based on Law Number 29 of 2007 concerning the Provincial Government of the Special Capital Region of Jakarta as the Capital of the Unitary State of the Republic of Indonesia. With this specificity, all regions in DKI Jakarta Province are at the provincial level. Therefore, if UMP is determined by the Governor at the provincial level, then level II regions (districts/municipalities) can determine MSEs that can be higher than UMP. However, for DKI Jakarta Province, if the Governor has determined UMP, it will apply automatically without any more



Volume 6, Issue 5

UMK determination. Additionally, the revision of UMP is carried out to provide a sense of justice to workers so that people's purchasing power increases.

c. UMP Lawsuit in 2022

The policy implemented by the Governor of DKI Jakarta Province to revise the UMP in 2022 has caused uproar among entrepreneurs. As a result, entrepreneurs filed a lawsuit to the PTUN (State Administrative Court) with Case Number: 11/G/2022/PTUN.JKT. The court granted the Plaintiff's claim in the subject of dispute for all and declared void the Decree of the Governor of the Special Capital Region of Jakarta Number 1517 of 2021 concerning the Provincial Minimum Wage in 2022, which was dated December 16, 2021. The court requires the Defendant to revoke the Decree and to issue a new State Administrative Decree regarding the Provincial Minimum Wage for 2022, based on the Recommendation of the DKI Jakarta Wage Board for Trade Union/Labor Elements Number: I/Depeprov/XI/2021, which was dated November 15, 2021, amounting to IDR 4.573.845.

Conclusion

Based on the discussion in the previous section, it can be concluded that the revision of the UMP determination policy in Governor's Decree 1517 of 2021 concerning the Provincial Minimum Wage in 2022 created new problems, where employers through DPP APINDO disagreed with the policy and filed a lawsuit to the PTUN. The lawsuit process took a long time to reach the appeal process, and as a result, the DKI Jakarta Provincial Government had to issue a new policy related to UMP in 2022, which was in accordance with the results of the PTUN decision, amounting to IDR 4.500.000. However, until now, there has been no UMP determination policy in 2022 that accommodates the results of the decision, so the UMP policy in 2022 does not have permanent and binding legal force (*inkracht*), even though the UMP for 2023 has been decided.

Suggestion

The policy for determining UMP in 2022 for DKI Jakarta Province, which created dynamics, is a lesson that policies cannot always please all parties. Government elements are considered the most important element to ensure entrepreneurs can continue to advance in their business while ensuring workers' prosperity so that the policy can be considered effective. When taking policies, especially those related to wages that have a broad impact on people's living standards, it should be done through a mature policy formulation process.

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