

Wage Policy in Indonesia Based on Government Regulation Number 36 of 2021 and its Economic Aspects

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Wages are an important element in the employment relationship. In 2021, The Indonesian government has issued Government Regulation Number 36 of 2021 on Wage Policy. The purpose of this wage policy review is to compare the wage provision between Government Regulation Number 78 of 2015 and Government Regulation Number 36 of 2021. The novelty of this study is to find differences in term of wage rules between the previous regulation and the latest ones, and also to examine all of those differences based on both legal and economic aspects; so that, the government will get more complete understanding in carrying out wage policy. Furthermore, the wage policy produced by the government hopefully can creates a positive impact on workers and employers.

Key words: *Wages, Wage Policy, Legal Aspects, Economic Aspects*

Introduction

In The Government Regulation Number 36 of 2021, wage policy is determined as policy set by the government to regulate strategic issues regarding wages. Wages it selves are defined as workers' rights that are received and expressed in the form of money as a reward from the entrepreneur or employer to the worker determined and paid according to an employment agreement, mutual agreement, or statutory regulations. In addition, there are some job or service allowances for workers and their families included in wages. In general, this Government Regulation Number 36 of 2021 is widely discussed about various matters related to wages, for instance: wage policies; determination of wages based on units of time and/or units of results; wage structure and scale; minimum wage; lowest wages for micro and small enterprises; wage protection; wages payment form and method; some kind of things that can

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be calculated with wages; wages as the basis for calculating or paying other rights and obligations; and administrative sanctions.

Wages can be categorized as one of the important elements in Employment Relations. The existence of wages is always associated with a source of income for workers to achieve a decent living level for themselves and their families. Therefore, the presence of Government Regulation Number 36 of 2021 as a regulation in the field of wages is expected to face the dynamic globalization challenges and technological transformation that can create an impact on changes in both social and economic order, including changes in the pattern of Employment Relations in the employment sector.

Worker in this regulation is defined as any person who works by receiving wages or remuneration in the form of money or others. Workers have rights to get wages when the Employment Relationship between the Worker and Employer starts, and will be ends when the Employment Relationship is terminated. This right is contained in Government Regulation Number 36 of 2021 concerning Wage Policy. According to this regulation, every worker has the right to get a decent living for humanity, to obtain an equal treatment for a non-discriminatory wage system, and to receive an equal work pay value.

The Government Regulation Number 36 of 2021 itself is produced to implement the provisions of Article 81 and Article 185 letter b of Act Number 11 of 2020 concerning Job Creation which mandates that the government needs to stipulate a Government Regulation on wages. Here are some the legal basis for Government Regulation Number 36 of 2021:

1. Article 5 paragraph (2) of the 1945 Constitution of the Republic of Indonesia;
2. Act Number 13 of 2003 concerning Manpower;
3. Act Number 11 of 2020 concerning Job Creation.

The wage dimension has a broad scope since it is related to the workers' basic needs aspects, economic growth, and also the expansion of employment opportunities. The policy direction for wage system development emphasizes the aspect of protecting wages for workers to achieve prosperity by taking into account the ability of companies and national economic conditions. Hopefully, a fair wage system will be realized if this policy is implemented in a proper way.

There are five main points in the wages arrangement regulated in Government Regulation Number 36 of 2021, for instance:

- a. The Minimum Wage is determined based on economic and labor conditions, meanwhile employers are still prohibited from paying wages below the stipulated minimum wage;
- b. Employers are required to develop and implement wages structure and scale by taking into account the company's capabilities and productivity;
- c. Wages for micro and small businesses are set based on an agreement between the employer and the workers in each business;

- d. Overtime wages must be paid by employers who employ employees exceed working hours, or on weekly breaks and official holidays. This payment is paid as compensation for them in accordance with the provisions of wages laws and regulations;
- e. The workers will be unpaid if they either do not come to work or do not do their jobs, unless the worker is on leave.

The Purpose of Wage Policy Study

The minimum wage calculation formula has changed in line with the issuance of Government Regulation Number 36 of 2021 concerning Wages. This formula was previously applied based on Government Regulation Number 78 of 2015 concerning Wages. Therefore, this study aims to:

1. Comparing and analyzing wage provision differences stated in between Government Regulation Number 78 of 2015 and Government Regulation Number 36 of 2021;
2. Analyzing the difference in the provincial minimum wage stipulation between Government Regulation Number 78 of 2015 and Government Regulation Number 36 of 2021;
3. Analyzing the difference in the Regency/City minimum wage settlement between Government Regulation Number 78 of 2015 and Government Regulation Number 36 of 2021.

Literature Review

According to the ILO Convention Number 131 of 1970, the minimum wage is defined as a minimum amount paid to workers/labours for their work performed or services provided in a certain period. It is calculated based on either units of time or units of output, and guaranteed by laws and regulations, and sometimes its stipulation is aimed at meeting the minimum needs of workers/laborers and their families in accordance with national economic conditions and social conditions.

The ILO Convention No. 131 of 1970 also mandates that it is necessary to consider several factors including the living needs of workers and their families in determining the minimum wage. For instance, the level of wages in general in the country concerned, the cost of living and its changes, the national social security system, conditions and capabilities of the company, and national goals such as promoting economic growth, expanding job opportunities and increasing productivity. Each country can determine the weight of each of these factors according to the reality of implementation and possible achievements. In this regard, each country needs to collect data on the development of wages and employment, especially the wages of workers or groups of workers with low incomes.

According to Fanti, L., & Gori, L. (2011), the minimum wage regulated in the law can have an impact not only on increasing equity but also to encourage economic growth and welfare. Minimum wages can effectively generate good welfare gains for all generations in the long run. The highest possible level of welfare is achieved when economic growth is maximized. So that, according to Siregar, T. H. (2019), it is important to look at the impact of minimum wage policies on the labor market as a whole and at a specific level before changing the minimum wage level. Therefore, Kyaw, M.T. & Cho, Y. (2021) argued that appropriate steps regarding minimum wage policies must be prepared by the government and related institutions in collaboration with trade unions to serve the welfare of employees.

Broecke, S., Forti, A., & Vandeweyer, M. (2017) found that in developing countries, minimum wages have little impact on employment. As in more developed countries, in developing countries regular and modest minimum wage increases are unlikely to have a significant impact on employment. The difference in the impact on employment between developed and developing countries is very significant. It is because in many developing countries, most workers still earn less than the minimum wage. Compliance with minimum wages is difficult to enforce in developing countries due to the large number of informal sectors. An increase in the minimum wage may not have an effect on overall employment as a decrease in employment in the formal sector may only be compensated by an increase in employment in the informal sector.

In developing countries such as Indonesia, in general it is not easy to set and implement minimum wage provisions. The problems faced in determining the minimum wage are:

1. There is a very striking income gap between both subordinate workers and the leadership in a company, as well as between workers in different sectors and between different regions. Such conditions make it difficult to uniform the provisions of the minimum wage;
2. Income per capita in developing countries is relatively low, while unemployment and underemployment rates are relatively high, so economic growth and job expansion are often prioritized over wage improvement efforts.

Comola, M., & De Mello, I. (2011) revealed that an increase in the minimum wage applicable in the labor market will reduce employment in the formal sector, where the loss of work is more than compensated by the expansion of the informal sector. This suggests that minimum wage laws are detrimental to, rather than protecting, vulnerable workers. Therefore, its use as an instrument of social protection and income redistribution is questionable. Pratomo (2016) also states that the increase in the minimum wage shifts workers from sectors covered by the minimum wage (covered sector) to sectors not covered by the minimum wage policy (uncovered sector). In addition, Feriyanto, N., & Sriyana, J. (2016) found some evidence including: cross-provincial minimum wage policies have created an unemployment trap; and the minimum wage policy failed to support the local economy towards a better and more stable

community welfare. This condition implies that a rational minimum wage that can provide adequate social protection for workers/laborers and is in line with economic development is very difficult to practice until now.

As stated by Siregar, T. H. (2019) in his study, in the laws and regulations related to minimum wage policies in Indonesia, there are still many loopholes that allow employers not to comply with wage regulations. For this reason, the wage law still needs to be reviewed to weigh the costs and benefits of the minimum wage. In addition, law enforcement needs to be strengthened for employers/entrepreneurs who are not subject to the prevailing wage laws. Therefore, the role of trade unions is very large to conduct negotiations and become a forum to protect the interests of workers related to wages.

According to Saget (2006), a review of laws in several Asian countries indicates that the minimum wage in some cases is not the minimum wage, but the effective wage paid to the majority of unskilled or semi-skilled workers. It was further stated that a review of Indonesian laws and regulations confirms that the minimum wage is not the actual minimum wage because the law allows companies that cannot afford not to pay the minimum wage to their workers. This practice contradicts the definition of the minimum wage as mandatory rather than optional.

From the above conditions, it can be concluded that setting minimum wages is deemed necessary as a form of wage protection, especially in countries where the position of trade unions is still weak and has not been able to carry out wage negotiations with employers/employers. However, in formulating the policy, it is necessary to pay attention to the main objective of setting the minimum wage itself. According to Simanjuntak P (1993), the objectives of setting minimum wages are to:

- a. Avoid or reduce unfair competition among workers in a surplus of labor market condition, which causes workers to receive wages below the appropriate level;
- b. Avoid or reduce the possibility of exploitation of workers by employers who take advantage of market conditions for the accumulation of profits;
- c. As a safety net to maintain, the level of wages for one reason or another does not go down again;
- d. Reducing the absolute poverty rate of workers, especially when the minimum wage is linked to the basic needs of workers and their families;
- e. Encouraging increased productivity, both through improving nutrition and health as well as through management efforts to obtain compensation for the increase in the minimum wage;
- f. Creating safer and more harmonious industrial relations.



Method

In order to obtain some information gained from various aspects related to the study, as well as to seek the answers of the problems found, this study utilized a normative legal approach. The normative legal approach is an approach that is based on legal materials by examining theories, concepts, legal principles and laws, and other regulations. Information needed by this study is collected through literature study from some books, journals, laws and regulations, and other related documents.

The data collected were analyzed using a comparative technique in the perspective of justice principle and legal protection principle by comparing the data from Government Regulation Number 78 of 2015 concerning Wages with the latest rules set by the government in the form of Government Regulation Number 36 of 2021 on Wages. To sharpen the analysis, this wage policy study is also equipped by some aspects from an economic point of view, so that the policies implemented by the Government of Indonesia can be more comprehensive.

Results and Discussion

One of the duty of The Ministry of Manpower is to motivate employers, workers and labor inspectors to comply with all provisions contained in Government Regulation Number 36 of 2021 since there are some changes and improvements in term of wage policies. *First*, employers are asked to comply with all the provisions that have been set. Employers are expected to use policy facilities that facilitate business activities wisely and proportionally, while still prioritizing deliberation and consensus, as well as having a sense of partnership with workers. Employers also need to make workers an asset that must be managed properly. Thus, they will be able to develop businesses and assist the development of the country, as well as contribute to creating community welfare through the fulfillment of labor rights for its workers. *Second*, The Ministry of Manpower asked all workers to do their jobs with enthusiasm and responsibility, improve their competence, be observant in seeing career and income development opportunities, always be productive consultative partners, and be an important part in every task they carry out. Thus, workers will be able to make a significant contribution to business development which perhaps also create an impact on working sustainability and family welfare of workers and their families. *Third*, The Ministry of Manpower orders the Labor Inspector not only to ensure the implementation and enforcement of the law, but also to provide guidance, advocacy, and encourage employers and workers as well as relevant stakeholders to implement all the rules that have been made. Labor inspectors together with employers and workers must create adjustments and fulfill all provisions, and also seek innovations to create harmonious, understanding and productive workplace conditions; so that labor conditions do not hinder but encourage accelerated economic recovery.

The community hopes that these changes in wage policy can create a positive impact on both workers and business world. In addition, the new wage policy is expected to be a common solution in dealing with the impact of the current Covid-19 pandemic. In general, the wage policy regulated in Government Regulation Number 36 of 2021 revises the previous ones, namely Government Regulation Number 78 of 2015 which perhaps can produces solution to the wages problem. In this latest government regulation, there are several provisions that have changed and some are still remain the same as the previous ones. The differences between wages provisions in Government Regulation Number 78 of 2015 and Government Regulation Number 36 of 2021 can be seen in Table 1 below:

Table 1. Wages Differences Comparison between the Prior and the Latest Regulations

Government Regulation Number 78 of 2015	Government Regulation Number 36 of 2021
1. Wages for workers with a working period of one year or more, are negotiated bipartitely between workers and employers in the company concerned.	1. Wages for workers with a working period of one year or more are guided by the wages structure and scale.
2. Wages are accounted based on hourly, daily or monthly time units.	2. Wages are accounted based on hourly, daily or monthly time units. In addition, hourly wages are calculated by the formula: Monthly wages/126.
3. The determination of the minimum wage is carried out annually based on the need for a decent living by taking into account productivity and economic growth. The need for a decent living consists of several components which are reviewed within five years by the National Wage Council.	3. The minimum wage is determined based on economic and employment conditions, including purchasing power parity (balance of shopping ability), labor absorption rate, and median wage (margin between 50 percent of the highest wage/salary and the lowest 50 percent of employees in a certain position or job).
4. The governor may determine the provincial (UMP) and Sectoral Regency/City Minimum Wages based on the agreement between the employers' association and the trade unions in the sector concerned. Determination can also come from the advice of the Provincial or Regency/City Wage Council.	4. Wages are adjusted annually with upper and lower limits. The upper limit is determined based on the average consumption per capita and the average number of household members working in each household. This average data uses data in the area concerned. The value of economic growth or inflation using existing data at the provincial level.
	5. There are certain conditions covering economic and manpower conditions in the province and district/city concerned.

Source: Research Team Analysis and gajimu.com (2021)



In the Article 24 paragraph 2 of Government Regulation Number 36 of 2021, it is explained that wages for workers with a working period of one year or more are determined by the wages structure and scale calculation. If wages in such a company utilized wages components without allowances, then the wages structure and scale become guidelines in determining its wages amounts. However, if the wages in the company consist of basic wages and allowances components, then the wages structure and scale become a guideline in determining the amount of basic wages. In addition, employers are required to develop and implement the structure and scale of wages in their companies by taking into account the company's capability and productivity. The wages structure and scale must be announced to all workers individually. The wages structure and scale are at least determined by the job position.

There are some steps that should be taken by the company when they will make a registration and submission their wages structure and scale application. First, the company must attach the ratification and renewal of the Company Regulations or its registration, extension and renewal of the Collective Labor Agreement at the time of submitting the application. Second, the wages structure and scale must be shown to the authorized official in The Ministry of Manpower and/or to the service in charge of local government affairs in the manpower sector. Third, after all documents are shown to those authorized officials, next it must be returned to the company at that time. Last but not least, the company head should attaches a statement letter that stated the wages structure and scale have been determined in his company. This statement letter is documented by the authorized official at The Ministry of Manpower and/or to the service in charge of local government affairs in the manpower sector, as an evidence of the wages structure and scale implementation.

Based on Article 16 of Government Regulation Number 36 of 2021, it is stated that the determination of hourly wages can be applied only for workers who are categorized as part time workers. This hourly wages are paid based on an agreement between the employer and the worker. The amount of wages in this agreement must not be lower than the calculated hourly wage formula. The formula for calculating hourly wages is set as follows:

$$\text{Hourly wage} = \text{Monthly wage}/126$$

The denominator in the hourly wage calculation formula can be reviewed if there is a significant change in the median working hours of part-time workers. The results of this review are determined by the Minister by considering the results of the study carried out by the National Wage Council. This new regulation aims to fill the legal basis vacuum regarding wages in Indonesia and to accommodate the needs of the business sector which requires flexibility in providing wages scheme for workers. The hourly wage provisions must be followed by the very strict conditions to avoid workers' exploitation. The hourly wages mechanism which only based on a government regulation also has also feared that it does not involve balanced stakeholder participation.

Furthermore, the information in Table 2 below shows that there are some differences in regulating the Provincial Minimum Wage between The Government Regulation Number 78 of 2015 and Government Regulation Number 36 of 2021.

Table 2. Provincial Minimum Wages Differences between the Prior dan the Latest Regulation

Government Regulation Number 78 of 2015	Government Regulation Number 36 of 2021
1. The determination of Provincial Minimum Wage (<i>Upah Minimum Provinsi/UMP</i>) based on the previous minimum wage calculation formula.	1. The adjustment of minimum wage value is according to the calculation stage.
2. A review of decent living needs that affect wages is determined by the governor by taking into account the recommendations of the Provincial Wage Council. These recommendations are also set by taking into account the inflation rate and economic growth.	2. The calculation of the Provincial Minimum Wage adjustment is carried out by the Provincial Wage Council, and then it is recommended to the governor. The Provincial Minimum Wage is determined based on economic and labor conditions. The Provincial Minimum Wage determined by a governor's decision, and then will be announced no later than November 21 st of the current year and will take effect from January 1 st of the following year. If it falls on a holiday, the announcement will be made one day before.
3. The provincial sectoral minimum wage must be higher than the UMP in the province concerned.	3. If the current year's Provincial Minimum Wage is higher than the upper limit of the Provincial Minimum Wage, the governor is obliged to set the following year's Provincial Minimum Wage as same as the current year.

Source: Analysis of Government Regulations and gajimu.com (2021)

The government has changed the formulation for determining the Provincial Minimum Wage (UMP). This change is stipulated after the issuance of Government Regulation Number 36 of 2021 concerning Wages which is a derivative rule of the Job Creation Act. Article 25 of this regulation states that the Provincial Minimum Wage (UMP) is determined based on economic and labor conditions. These take into account a number of variables, namely purchasing power parity, labor absorption rate and median wages sourced from institutions authorized in the field of statistics. The minimum wage system in Indonesia will come into effect in 2022.

The calculation of Provincial Minimum Wage is carried out by the Wage Council, and then it is recommended to the governor. Previously, the government set the Provincial Minimum



Wage (UMP) based on Government Regulation No. 78 of 2015. Under this law, the governor in each province had the authority and was obliged to set the Provincial Minimum Wage without a recommendation from the Wage Council. In addition, the wages formulation regulated in Government Regulation Number 78 of 2015 is calculated based on the accumulated inflation rate and economic growth.

Wages are one of the essential elements in the employment relationship. The existence of wages is always associated with sources of income for workers to achieve a decent living standard for themselves and their families. The dimensions of wages have a broad scope, both related to workers' basic needs and economic growth aspects, as well as the expansion of employment opportunities. The policy direction for the development of the wages system emphasizes the aspect of protecting wages for workers to achieve their welfare by taking into account the ability of companies and national economic conditions. Through this basis, hopefully a fair wage system will be realized.

In addition, regulations in the field of wages must be able to answer the challenges of the globalization dynamics and the transformation of information technology that have an impact on changes in social and economic order, including changes in the pattern of employment relations. Therefore, a wage regulation is needed to regulate the working relationship between workers and companies. The Central Government establishes a wage policy as one of the efforts to realize the workers rights, and also to create a decent living for humanity. Wage policy itself is categorized a national strategic program. The provincial government in implementing the wage policy must be guided by the policies of the Central Government. Next, the information in Table 3 shows the comparison between District/City Minimum Wage based on Government Regulation Number 78 of 2015 and Government Regulation Number 36 of 2021.

Table 3. The Differences in District/City Minimum Wages

Government Regulation Number 78 of 2015	Government Regulation Number 36 of 2021
1. The governor may determine the District/City Minimum Wage (<i>Upah Minimum Kabupaten/Kota/UMK</i>).	1. The governor may determine the District/City Minimum Wage with certain conditions, such as the average of district/city economic growth in the last three years which is higher than the average of province economic growth. The value of economic growth, then is deducted by the rate of district/city inflation for three years which is always positive and higher than the province inflation.
2. The District/City Minimum Wage must be greater than the Provincial Minimum Wage in the province concerned.	2. The District/City Minimum Wage is determined after the determination of the Provincial Minimum Wage. District/City Minimum Wage must be higher than Provincial Minimum Wage.
3. The District/City Minimum Wage is calculated based on the previously applicable calculation formula.	3. The District/City Minimum Wage that have not fulfilled the minimum wage requirements is determined by calculating the relative ratio between the District/City Minimum Wage and the Provincial Minimum Wage based on the purchasing power parity ratio, labor absorption rate, and median wage which. The result of this calculation is then averaged again.
4. If it is needed to take a decent living review, the governor determines the District/City Minimum Wage by taking into account the recommendations of the regent/mayor and the Provincial Wage Council. The recommendation from the regent/mayor is only becomes a suggestion.	4. The variables of purchasing power parity, labor absorption rate, and median wages are calculated based on the average of the last three years from available data. If these conditions are not met, the governor cannot determine the District/City Minimum Wage for districts/cities that do not yet have a District/City Minimum Wage.
5. The district/city sectoral minimum wage must be greater than the District/City Minimum Wage in the district/city concerned.	5. There is no sectoral minimum wage in the latest regulation. The District/City Minimum Wage value is calculated by the district/city Wage Council, then submitted to the regent/mayor to be recommended to the governor.

Source: Analysis of Government Regulations and Gajimu.com (2021)

From Table 3 above, it is clear that when the calculation result of the District/City Minimum Wage is lower than the UMP, then the regent/mayor cannot recommend that District/City Minimum Wage to the governor. The District/City Minimum Wage adjustment is carried out through the calculation stages by the Regency/City Wage Council and then submitted to the regent/mayor to be recommended and sent to the governor. If the current year's District/City Minimum Wage is higher than the upper limit of the District/City Minimum Wage, the regent/mayor must recommend it to the governor, so that the following year's District/City Minimum Wage is the same as the current year's District/City Minimum Wage. The District/City Minimum Wage is determined by a governor's decision and announced no later than November 30 of the current year, and is enforced from January 1st of the following year. If it falls on a holiday, the announcement will be made one day in advance.

The economic aspect point of view, in a perfectly competitive market, labor wages are applied based on market balance, labor supply; therefore, demand will adjust to the equilibrium price. It means the higher wages, the more labour supply. In general, the surplus of labor has an impact on the occurrence of unemployment. In companies with a low level of elasticity, this will increase the price of production output in response to an increase in wages, because the increase in wages is passed on to consumers. As a result, the company will adjust its non-cash compensation such as benefits including health insurance, pensions, research budget and travel budget. In addition, the company will also make an adjustment regarding job attributes such as work requirements, schedule flexibility and training opportunities to cope with that wage increases.

There are some consequences that will be happen if the government set the minimum wage in the higher level. First, the intensity of the company's non-compliance will getting higher and higher. It is because they want to avoid the minimum wage raising in that region which is too high compared to the average wage. Second, if there is an increase in wages, the company will change the compensation package offered to workers with minimum wages and non-minimum wages. This changes could be happen in the form of either health insurance or other benefits. Low-wage workers it selves tend to prefer to receive additional cash (Clemens, 2021) if the company switches from non-cash to cash compensation due to an increase in the minimum wage. Furthermore, the welfare of low-wage workers will increase, while the welfare of high-wage workers may decrease.

To face this circumstance firms can change their production function by increasing their dependence on capital, technology, and high-skilled labour, and at the same time reducing their dependence on low-skilled labour. Clemens (2021) suggests that there are two views related to the minimum wage, namely the conservative view and the liberal view. On the one hand, conservative view argues that the minimum wage will reduce the demand for labor and is an undesirable policy. On the other hand, liberals tend to believe that the minimum wage is desirable and does not reduce the demand for labour.

An increase in labor costs could theoretically change decisions in labor demand (Buszkiewicz et al., 2021). In Seattle, Washington, some researchers found that the benefits of a higher minimum wage were primarily for workers who were employed on a regular basis before legislation was passed. For workers who work less stable, there is no visible benefit from an increase in the minimum wage. To understand the impact of the minimum wage, it should be noted that many low-income workers have unstable jobs and uncertain schedules. In this regard, the government should also consider the long-term effect of the minimum wage on subjective health, job stress, job satisfaction and financial well-being.

According to Gindling (2018), the increasing of minimum wage will reduce poverty levels in most developing countries. However, it is only create small impact, because the minimum wage is applied only to a small proportion of the working poor, not to all of workers in informal sector. An increase in the minimum wage will also create gains or losses among poor households. This depends on the effect of employment, the distribution of wages, and the effect on the head of the household (Gindling, 2018). An increase in the minimum wage can be part of a comprehensive poverty reduction package, eventhough it should not be the only tool to reduce poverty.

There are two views related to the increase in the minimum wage, namely the pro view and the contra view (Gindling, 2018). Here bellows are some pro views:

1. If there are fewer jobs lost in the formal sector, raising the minimum wage will reduce poverty.
2. If informal sector wages rise when minimum wages increase, higher minimum wages are more likely to reduce poverty.
3. If the head of a low-income household earn as much minimum wage, a higher minimum wage is likely to reduce poverty.
4. If low-income workers lose their jobs, and cannot find another job because of higher minimum wages, social safety nets for low-income households can protect against increasing poverty.

Contradictory views stated that:

1. If a higher minimum wage causes workers to lose their jobs in the formal sector, this is unlikely to reduce poverty.
2. If the law on minimum wages does not cover a large number of informal workers, a higher minimum wage will not reduce poverty.
3. If the workers affected by the minimum wage are secondary family workers, a higher minimum wage will not reduce poverty.
4. If low-income workers lose their jobs and cannot find new jobs because of higher minimum wages and no social safety net, higher minimum wages will increase poverty.

Most of the empirical studies on the impact of minimum wages on poverty in developing countries conclude that minimum wage increases reduce poverty. But there is also a small impact with an increase in minimum wage. This could be happen because of some reasons below:

1. Most workers are not covered by the minimum wage law.
2. Higher minimum wages do not affect all low-income households in the same way. An increase in the minimum wage can pull some households out of poverty; however, an increase in the minimum wage pushes others into poverty.

Given the potential negative impact on some of the poorest families, raising the minimum wage is currently an inefficient tool in reducing poverty. There are some efforts that can be pursued by the government in order to create more efficient policies, for instance:

1. Improve compliance with minimum wage laws,
2. Increase income in the informal sector,
3. Increase the long-term productivity of workers from low-income families,
4. Increase social safety nets for workers who lose their jobs when minimum wages increase.

The minimum wage can be a part of a poverty alleviation policy package, however, this policy needs to be accompanied by other programs such as a conditional cash transfer program. In Brazil, Bolsa Familia, conditional cash transfer programs are more effective than increasing the minimum wage in reducing poverty and income inequality. By giving this conditional cash transfers to low-income households, government can provide an additional benefit to the households as part of a social safety net. It is important, especially when workers lose their jobs due to higher minimum wages. In addition, incentives for companies need to be developed to increase the demand for labor, such as employment subsidies. This can lead to positive impact to employment and income effects. Labor supply incentives, particularly earned income tax credits, have also been shown to be effective in increasing both the demand for labor and the incomes of low-income workers in the US. Sabia (2015) argues that minimum wage increases fail to boost economic growth, and it can also creates negatively impact to vulnerable workers during recession.

There is little empirical evidence to support the notion that a higher minimum wage would be able either becoming an engine of economic growth by redistributing income to workers with a relatively high marginal propensity to consume or alleviating poverty during an economic crisis. Therefore, policymakers who wish to assist low-skilled workers during a recession, or to spur economic growth, should not think that the minimum wage is such a policy solution. On the other hand, a proven pro-employment cash transfer program and a negative income tax scheme will be able to provide income to the working poor much more efficiently.

The results of Lemos' research (2009) found that the minimum wage did not adversely affect employment in Brazil between January 1995 and December 2004. The minimum wage depresses the distribution of wages in the formal and informal sectors, but it does not affect employment. The number of jobs and working hours did not change in each sector after the increase of minimum wage. The labor market in Brazil exhibits some of the features of a segmented labor market and also shows the features of an integrated competitive labor market. Last but not least, Lemos (2009) argues that the segmented labor market model does not provide a satisfactory explanation of the effect of minimum wages effect on the formal and informal sectors in Brazil.

Conclusion and Recommendation

1. Conclusion

After comparing and analyzing the two regulations concerning on ages, it can be concluded from the new rules, namely Government Regulation Number 36 of 2021 as follows:

- a. Wages for workers with a working period of one year or more are guided by the wages structure and scale. In addition, the emergence of hourly wage regulations in minimum wages are set based on economic and labor conditions, and wages are adjusted annually with upper and lower limits. The upper limit of the minimum wage is the reference for the highest minimum wage value which is calculated using the variable average consumption per capita and the average number of working household members in each household. Meanwhile, the lower limit of the minimum wage is the reference for the lowest minimum wage, which is accounted as much 50% of the upper limit of the minimum wage. According to this wage rules, there are certain conditions that should be calculated in determining the minimum wage, for instance economic and labor conditions in the province and district/city concerned.
- b. The adjustment of the minimum wage value is carried out according to the calculation stages. Besides that, the calculation of the adjustment of the Provincial Minimum Wage (UMP) is carried out by the Provincial Wage Council and then recommended to the governor. The Provincial Minimum Wage is determined based on economic and labor conditions. If the current year's Provincial Minimum Wage is higher than the upper Provincial Minimum Wage limit, the governor is obliged to set the following year's Provincial Minimum Wage the same as the current year.
- c. The governor can determine the Regency/City Minimum Wage (UMK) with certain conditions. Furthermore, the Regency/City Minimum Wage is determined after the Provincial Minimum Wage, and the amount of Regency/City Minimum Wage must be higher than the Provincial Minimum Wage. The Regency/City Minimum Wage that does not have a set minimum wage, then its Regency/City Minimum Wage is

determined by calculating the relative comparison between the Regency/City Minimum Wage to the Provincial Minimum Wage set based on the purchasing power parity ratio, labor absorption rate, and median wages which are then re-averaged all these variables like purchasing power parity variables, labor absorption rates, and median wages calculated based on the average of the last three years from available data. Last but not least, there is no sectoral minimum wage in the latest regulations.

2. Recommendation

From the economic aspect perspective, it is clear that Indonesia has a huge number of labor supply that is greater than the demand. Therefore, the surplus of labor produced has an impact on the occurrence of unemployment. The increase in the minimum wage set by the government needs to be followed by the increase of supervision in the labor sector because the intensity of non-compliance by companies will increase, such as avoiding raising the minimum wage.

When wages are increase, firms can change their production function by increasing their dependence on capital, technology, and high-skilled labour, and at the same time they can reduce their dependence on low-skilled labour. There are two views related to the minimum wage, namely the conservative view and the liberal view. On the conservative view, the minimum wage will reduce the demand for labor and is an undesirable policy. On the other hand, liberals tend to believe that the minimum wage is desirable and does not reduce the demand for labour. Indonesia in this case tends to have a more conservative view, so that, it is necessary to anticipate policies towards increasing its minimum wage by expanding other policies through increasing income in the informal sector, increasing the long-term productivity of workers from low-income families, and increasing social safety nets for workers who lose their jobs when wages are low.

Although the minimum wage can be part of a poverty alleviation policy package, this policy needs to be accompanied by other programs such as a conditional cash transfer program as argued by some researches who found that conditional cash transfer programs are more effective than minimum wage increases in reducing poverty and income inequality. Conditional cash transfers to low-income households have the added benefit of providing households with part of a social safety net when workers lose their jobs due to higher minimum wages. In addition, incentives for companies need to be developed to increase the demand for labor.

Minimum wage increases fail to boost growth and can have a negative impact on vulnerable workers during times of recession. Policymakers who want to help low-skilled workers during a recession, or to spur economic growth, should not see the minimum wage as a policy solution. On the other hand, a proven pro-employment cash transfer program and a negative income tax scheme will be able to provide income to the working poor much more efficiently.



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