

The Dispute Over Minimum Wages in Indonesia: Who's to Decide How Much Is Enough?

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The central government earlier this year resolved a longstanding industrial dispute over the official West Java minimum wage through intervention; it brokered a new deal between workers and employers after thousands of manufacturing workers blocked the toll road between Jakarta and Bandung. But such a “quick and dirty” solution, while useful in the short term, may create considerable legal uncertainty.

The government’s deal annulled a decision by the State Administrative High Court to uphold the legal appeal of employers against a minimum wage that had been proposed by the Regional Wage Council (DPN) and approved by the governor.

In doing so, the deal has put the law enforcement for minimum wage issues in serious jeopardy by signaling that legal processes can be overruled by strategic ad-hoc actions on the street. This might trigger many more similar actions in the future, with any party, whether workers or employers, refusing unilaterally to comply with prior decisions concerning minimum wages.

In another case of central government facilitation, employers and workers in Banten struck a deal to implement a new minimum wage rate approved by the province’s governor. They reached the agreement just in time to stop workers from blocking the toll road leading to Soekarno-Hatta International Airport after employees signaled their intent to file a lawsuit against the governor-approved wage rate because it was higher than the wage recommended by the provincial wage council.

Incidents like these have raised a number of questions: At what precise level should the minimum wage be fixed, and what institutional mechanism, accepted by all parties, should determine this amount? What are the options to effectively settle disputes and foster industrial peace?

Setting the minimum wage is not an easy task. The representatives of both employers and workers have, by definition, opposite points of view.

From the employers’ perspective, the minimum wages has been increasing too rapidly compared to the growth in workers’ productivity. Ultimately, they argue, increasing the wage level without productivity growth will only hurt companies and the business climate. And this, they say, will eventually lead to more unemployment and less investment. Looking to bolster their argument, they say investors are considering moving production out of Indonesia following the wage rises.

Under these circumstances, the question at play is how to raise productivity. The answer lies in increased vocational training and education as well as technology transfer.

At the same time, workers do not believe they are currently receiving a “fair wage.” From their point of view, the basic needs expenditure listed in the basket used to establish the minimum wage is far from what they expect. In addition, the calculation is based on the expenditure of an unmarried breadwinner, meaning that important items such as health care and education are not covered. The workers argue that despite the upward trend in the nominal wage, real wages have declined.

In contrast to employers, workers believe a higher minimum wage would help the economy because it would increase their purchasing power and lead to more consumption, allowing employers to benefit from expanding production and investment.

Against this backdrop, some empirical studies on the minimum wage in Indonesia show diverging results. In reality, workers and employers often forget they are in the same boat. They feel that they are trapped in a zero-sum game: one’s benefit comes only at the other’s expense.

In Indonesia, leaving the market to determine the wage level by allowing it to reach its equilibrium of supply and demand would mean it being dominated by the wage levels of informal economy workers and the absence of universal coverage in social protection. The result would be a race to the bottom.

On the other hand, however, an increase in minimum wage levels beyond the “company’s ability to pay” would simply result in greater non-compliance with minimum wage payments. Instead of having “rising tides lift all the boats,” this failure to reach a win-win solution would be “sinking all the boats.”

Workers and employers must reconcile themselves to agreeing on minimum wage levels that companies can afford to pay, but they must also take into account a safety net for workers, productivity and other factors

such as the inflation target.

Minimum wage levels should be set between certain limits for all workers, although there should also be some room at the company level for bilateral negotiations through collective bargaining agreements that consider enterprise profitability.

Another crucial issue is the mechanism through which minimum wages are determined. Recent industrial disputes have resulted from “politicking” or “regulatory capture.”

To gain more votes in regional elections, some incumbents and challengers have campaigned for or enacted a relatively high minimum wage, above the level agreed upon by workers and employers.

These kinds of political moves should be avoided because they mark an unnecessary intervention in the decisions recommended by wage councils at national or regional levels, in which workers and employers are represented.

Lastly, once a mandatory minimum wage is set, it is important to ensure that it is enforced, and that requires an increase in the number and capacity of labor inspectors. However, while law enforcement is essential, it is preferable to maximize out-of-court settlements to peacefully resolve labor disputes before they go to court.

Statutory minimum wages, though sometimes controversial, are one of the instruments in the safety nets of workers, addressing the issues of poverty and inequality.

Learning from the experiences of countries like Brazil, Mexico and South Africa, we can see that the universal coverage of minimum income security under social protection floor schemes effectively helps reduce poverty and inequality.

Developing a comprehensive and universal social protection floor to substitute the statutory minimum wage policy would be a plausible public policy option that Indonesia needs to seriously consider.

<http://www.thejakartaglobe.com/commentary/the-dispute-over-minimum-wages-in-indonesia/506787>

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