MINIMUM WAGE-SETTING REFORM AND COLLECTIVE BARGAINING IN INDONESIA

Maarten van Klaveren

Amsterdam, WageIndicator Foundation, August 2021

About the WageIndicator Foundation

WageIndicator Foundation (StichtingLoonwijzer) - www.wageindicator.org

The WageIndicator Foundation started in 2001 to contribute to a more transparent labour market for workers and employers. It collects, compares and shares labour market information through (online & face-face) surveys and desk research. It serves as an online library for wage information, Labour Law and career advice.

The WageIndicator Foundation is assisted by world-renowned universities, trade unions and employers' organisations and currently operates in 125 countries, with 60 new countries in the pipeline. Their international staff consists of some 100 specialists spread over the whole world. The foundation has strong relationships with Monster since 2003. The WageIndicator Foundation is a global organisation reaching millions on a monthly basis. For more information please visit: WageIndicator.org. WageIndicator Foundation has offices in Amsterdam (HQ), Ahmedabad, Bratislava, Buenos Aires, Cape Town, Dar es Salaam, Maputo and Venice.

WageIndicator Foundation, Nieuwe Achtergracht 166, 1018 WV Amsterdam, The Netherlands

office@wageindicator.org

NOTE

This paper is an extended and updated version of the author's contribution to: Irene Dingeldey, Damian Grimshaw and Thorsten Schulten (eds) (2021) Minimum Wage Regimes. Statutory Regulation, Collective Bargaining and Adequate Levels. London / New York: Routledge (DOI:10.4324/9780429402234) (Maarten van Klaveren, Chapter 9. Minimum Wages in Indonesia. Informality, politics and weak trade unions in a large middle-income country, pp. 191-205)

SUMMARY

This paper discusses recent reforms in Indonesia's minimum wage-setting regime and relate these to the perspective of free collective bargaining and the strengthening of the country's collective institutions. It is an extended and updated version of a recent book contribution of the author. The paper introduces Indonesia's post-1945 economic development and labour relations as well as its main labour market features, before focusing on developments in formal minimum wage-setting. Through the 2015 reform, the Widodo I administration aimed to 'depoliticise' minimum wage-setting, although the new system would have generated higher minimum wage increases than its predecessor. By eliminating the sectoral minimum wage and the decent living needs (KHL) weighting factor, under the Widodo II administration the 2020 'Omnibus' Law and the 2021 Regulation on wages have taken away key functions of the Provincial Minimum Wage Council: with all existing constraints on collective bargaining, virtually the only forum left for many unions to show their functionality. In conclusion, it is unlikely that Indonesia's more restrictive decision-making on minimum wages along the lines of the recent reforms would spark free collective bargaining.

1. INTRODUCTION

Research on the coverage of statutory minimum wages in developing countries shows for Asian countries such as Indonesia a strong clustering of the paid wages around minimum wage values, the so-called 'spike'. For large shares of workers this implies that their wages may stick at the minimum wage level or even below that. Under conditions of a large labour supply, a large informal sector, the dominance of political decision-making in labour relations and a generally weak trade union movement, minimum wage policies tend to play a major role in wage setting. Under such conditions trade unions are increasingly challenged to engage in meaningful collective bargaining. This paper discusses these conditions for Indonesia.

The paper starts with an introduction of Indonesia's post-1945 economic development and labour relations (section 2), before examining the country´s main labour market features: formalisation, informality, and inequality (section 3). After briefly dealing with the Indonesian trade union movement (section 4), the vicissitudes of the country's minimum wages are covered in section 5, successively treating the early years; recent developments in formal setting; the 2015 reform of the wage uprating system, and the 2020/21 labour law reform. Section 6 covers the value of minimum wages relative to both the general wage level and the cost of living in Indonesia, as well as the issue of employer compliance with the relevant minimum wage. Section 7 treats the country's politics of minimum wage-setting; first, the effects of the 2015 reform on employment and wage growth, and, second, the relationship between minimum-wage setting and collective bargaining. The paper concludes by considering how the prospects for Indonesia's minimum wages system relate to steps towards free and effective collective bargaining.

2. ECONOMIC DEVELOPMENT AND LABOUR RELATIONS

Initially, starting with the 1945 Proclamation of Independence, Indonesia´s labour legislation developed as protective for labour, in particular due to the involvement of trade unions in the independence struggle against the Dutch. This changed in the mid-1960s with the fall of President Sukarno and the emergence of the new President Suharto's New Order. The economic policies of the New Order fiercely encouraged Foreign Direct Investment (FDI). Also, the Suharto regime restored and maintained tight political control over the archipelago. A new labour law regime evolved subordinated to the economic interests of Suharto´s family and their cronies. Just one official trade union federation was allowed, operating as a transmission belt for government policies. Police and security forces suppressed grass-root trade unionism (Tjandra, 2016: 77).

The interests of the Suharto-related elite came at risk when in August 1997 the Asian financial crisis reached Indonesia and the Rupiah began a free fall. After his (rigged) re-election in April 1998, Suharto immediately implemented the harsh austerity measures of an IMF package. The economic crisis rapidly turned into a political one. Steep increases in the cost of living and government budget cuts triggered the rise of a broad reform movement (***Reformasi***) that in 1998 brought the Suharto regime down. With the first three ***Reformasi*** administrations, led by respectively B.J. Habibie (1998-1999), Abdurrahman Wahid (1999-2001) and Megawati Sukarnoputri (2001-2004), political, economic and legal arrangements changed dramatically. Under pressure of (potential) foreign investors and international sponsors such as the International Monetary Fund (IMF), the Indonesian economy got rid of most of its state-led treats and respective administrations gave room to market-oriented reforms. Labour legislation reforms got caught between a bottom-up strive for democracy and a growingly neo-liberal context (cf. Tjandra, 2016: 20-22, 76).

One month after the fall of Suharto in May 1998, the Habibie administration had released a Ministerial Regulation concerning Trade Union Registration, allowing workers more freedom to establish unions. This administration also ratified ILO Convention No. 87 concerning Freedom of Association and Protection of the Right to Organise, and released oppositional union activists from prison. A package of three new labour laws was put in place. Concerning worker protection, this package built on efforts the New Order government had already started in 1996 to allow less worker protection and generate more flexible labour markets. In 2000-2001, a massive decentralisation of administrative power to the regions was implemented, and minimum wage-setting was largely transferred to the provincial governors. Although the final responsibility resided with the central government, for the next 15 years the governors' decisions would be crucial in this respect (Tjandra, 2016: 77-78, 167).

Indonesia's economy recovered rather quickly from the Asian crisis and from 2003 posted relatively strong GDP per capita growth, averaging 4.3 percent per year over 2003-17. Remarkably, terrorist attacks (2002, 2009) and natural disasters (2004 tsunami; 2006 and 2009 earthquakes), though impacting on the local economy, had rather minimal effects on national economic performance. The negative effects of the worldwide financial crisis were quite limited as well, though both GDP and export growth slowed down after 2010 (ILO, 2017: 4-5). A major problem, by contrast, has been posed by massive internal migration. Since 1980 urbanisation in Indonesia has been growing even more rapidly than in China or

India. By 2010 exactly half of the Indonesian population already lived in urban areas, a share that in 2020 had reached nearly 57 percent (Mishra, 2009: 38; O'Neill, 2021). Related to population growth and internal migration, the development of employment has lagged behind. Already from 2005 on employment growth slowed down, and the number of Indonesians not economically active grew considerably. In 2005-09 and 2010-16, total employment grew by respectively only 1.8 and 1.4 percent. Between 2005 and 2016 employment in manufacturing, the main driver of economic growth for lower middle income countries such as Indonesia (cf. Van Klaveren, 2015), grew by just 1.7 percent per year. By contrast, employment in services increased by 6.5 percent yearly (ILO, 2017; author's calculations based on Statistics Indonesia (BPS) data).

3. THE LABOUR MARKET: FORMALISATION, INFORMALITY AND INEQUALITY

Two decades ago, according to the 2000-2001 National Labour Force Survey (***Sakernas***), slightly less than 29 percent of all employed Indonesians worked in formal employment: nearly 3 percent as an employer with permanent workers and 26 percent regularly as an employee in wage employment. During 2004-2013, Indonesia experienced a rapid growth of ***wage*** employment, resulting in formal workers by 2013 making up nearly 40 percent of the labour force. Between 2013 and 2016, the formal share stabilized at this level. A large amount of all workers has continued to be engaged in informal low-productivity employment as shown by the relatively high proportion of own-account workers and contributing family workers: in 2016 around one in three workers, or 31 percent. Moreover, even working in the Indonesian formal sector is far from a guarantee for job security and good working conditions. For example, in its 2016 'Indonesia's Rising Divide' report the World Bank noted that around one-third of Indonesian employees, or some 13 million, lacked any formal written contract (World Bank, 2016: 18).

In the 21st century the earnings gap between the formal sector, with a large minority of skilled employees, and the majority of unskilled workers in the informal sector has widened. In particular the relative incomes of the self-employed have fallen. In August 2012, the average earnings of casual workers and self-employed amounted to 48 percent and 65 percent of employees' average wage, respectively. The World Bank (2016: 79) regarded this widening gap one of the main drivers of the Indonesia's increasing inequality. Clearly, as noted by among others Tadjoeddin (2016), the robust growth of the Indonesian per capita GDP between 2000 and 2015 did not translate in a parallel increase of decent employment opportunities. The latest World Bank reporting on Indonesia, covering the period 2009-2019, confirmed the continuation of the dominant trend, noting that "(....) most new jobs were in low productivity sectors with earnings insufficient to raise workers to middle-class status. Among the 85 million paid workers before the pandemic, only 13 million or 15 percent were middle class income earners" (2021: 4, 29). This report added: "The COVID-19 crisis has exacerbated the jobs situation. The share of middle-class jobs declined by about 5.2 percentage points between 2019 and 2020. This trend, if not reversed, threatens the gains during the past decades" (4).

The development of the Gini coefficient, the most commonly used measure of income inequality, also indicates Indonesia's stagnation on the road to more equality. In the 1980s and 1990s, the Indonesian 'Gini' (calculated for disposable household income) fluctuated between 0.32 and 0.36. During the 1997-98 Asian crisis, poverty increased sharply but the Gini ratio fell: the richest segments of society were hit hardest. Since then, however, the Gini value has increased sharply, from 0.30 in 2000 to 0.39 in 2017. In these years with rising inequality in Indonesia, the coefficient was stable or falling in Asian countries such as India, Malaysia, and Vietnam – except for China, where the 'Gini' increased even more rapidly than for Indonesia (World Bank, 2016: 38-39; ILO, 2017: 4). At first sight this seems to contrast with the finding in the World Bank's 'Rising Divide' report that the strong GDP growth between 2000 and 2014 helped to pull many out of poverty and create a substantial middle class. Indeed, by 2014 45 million Indonesian people (the richest 18 percent) were economically secure, a segment growing at 10 percent per year. However, ‘Rising Divide‘ also emphasized that “the economically secure are leaving the other 205 million behind“ (World Bank, 2016: 39).

4. THE TRADE UNION MOVEMENT

Following the ***Reformasi*** the existence of independent trade unions was officially recognized, in particular through the enactment of Law No. 21/2000. The numbers of unions mushroomed from the single union federation to more than one hundred federations registered at the national level in 2015. Moreover, thousands of plant-level trade unions have registered at district level (Tjandra, 2016: 260). Nevertheless, trade union density is low in Indonesia and even seems to have decreased, from 10 percent in 2006 to 8.5 percent in 2016 (BPS 2016). Various factors may explain the weakness of the Indonesian trade union movement (cf. Tjandra, 2016: 78-85, 98). First, Indonesia's democratization process was initiated during a major economic crisis. In spite of rising expectations in the labour force, this left little room for trade unions to achieve wage rises. Second, the unions met immense problems in overcoming the legacy of the New Order's state-control and learning the tricks of the trade of collective bargaining. Internal union problems showed up as persistent: a high level of fragmentation, lack of coordinated action, and strong personal rivalry among union leaders. Third, from 1998 to 2006 a reform program dismantled various protective aspects of the previous legislation (Tjandra and Van Klaveren, 2015: 145).

Fourth, the widespread violations of trade union rights by employers have most likely contributed considerably to the difficulties the unions meet in deploying their power. Until the current day many employers continue to throw up obstacles for union activities, including violence in the workplace and dismissal of unionists. Mistrust between unions and employers remains often deep. Such lack of trust provides a major explanation for the limited number of collective agreements as compiled by the WageIndicator Collective Bargaining Agreements Database. Also, the large majority of collective agreements is factory-based; only a small minority has sectoral coverage. Their contents are mostly limited as well: specifications in agreements often reiterate provisions existing in official labour regulations. Examples of meaningful collective bargaining mainly regard subsidiaries and suppliers of multinational enterprises (MNEs). A growing number of MNEs sourcing or otherwise operating in Indonesia have become aware of the risks of reputation damage when international labour standards are violated (Tijdens et al., 2018).

5. THE VICISSITUDES OF INDONESIA'S MINIMUM WAGES

5.1 The early years

In the mid-1950s the Sukarno administration, under pressure of growing labour unrest, requested the ILO for technical assistance on wage policy and industrial relations. In 1958, an ILO advisor submitted his report recommending that "the ultimate goal of wages policy should be to ensure that all wage earners earn at least a living wage from their principal employment" (Tjandra and Van Klaveren, 2015: 146). This can be seen as an early reference to the 'living wage' concept. It lasted until 1969-1971 when under the Suharto regime the first minimum wage legislation was passed. National and regional Wage Councils were installed. Until the late 1980s this regulation was merely cosmetic. By then the Suharto administration lifted the statutory minimum wage, in the early 1990s even doubling its real value. Growing internal and external pressure coincided here: internally, from domestic labour rights activists and NGOs, externally, from US activists pointing to the systematic violation of labour standards in Indonesia and recommending the withdrawal of the country's preferential trade status under the GSP (Generalized System of Preferences) for its exports to the United States (Tjandra, 2016: 165-166). A World Bank evaluation of this minimum-wage doubling found limited effects, noting only a 2 percent decrease in wage employment in mainly small firms (Rama, 1996).

However, a few months later another World Bank policy report exaggerated the negative outcomes of the minimum-wage doubling. Amidst the ***Reformasi*** turbulence, these reports led to heated debate in government circles (Tjandra, 2016: 68). Although this second World Bank report's claim that minimum wages would erode the country's business profitability could not be substantiated, the idea that minimum wages by default would hardly or not affect the wage distribution could no longer be maintained either. Somewhat later a study argued that already by 1992 the effect of minimum wages on the wage distribution had become apparent and that spikes around the minimum wage were visible (SMERU, 2001). Based on 2005 and 2009 data for Indonesia, an ILO research team confirmed the existence of a significant spike at or around the minimum wage level, while sharing this phenomenon notably with India (Rani et al., 2013: 388).

5.2 The formal setting

The Indonesian statutory minimum wages formally cover all employees except domestic workers. This results in an overall coverage of approximately 95 percent with a smaller proportion of female workers and low-skilled workers being covered (cf. Rani et al., 2013: 408). Moreover, only workers with less than 12 months of employment at the company are supposed to be compensated at the minimum wage, with compensation rising after one year based on experience and the company's wage structure.

Indonesia has a system of multiple minimum wages. Currently, the levels of minimum wages vary by province, district and sector. Over time, 'needs' became an essential component in determining the value of each minimum wage. In 1989, the Suharto administration released a regulation defining the rate of ***Kebutuhan Fisik Minimum*** (KFM, Minimum Physical Needs), replaced in 1995-1997 by a broader consumption bundle. In the ***Reformasi*** era, following regulations in 2003 and 2005, the minimum wage policy goal became to increase until it reached the ***Kebutuhan Hidup Layak*** (KHL), or 'Decent Living Needs'. KHL described a list of items covering the expenses of a single adult worker including food and beverage, household, clothes, education, health, transportation, recreation and savings, with the food basket targeted at 3,000 calories per person per day. Moreover, according to the 2003-2005 legal frameworks, in minimum wage fixing the consequences for productivity at national and local levels, economic growth, and the position of marginalised industries also had to be considered.

In the course of the 2000s, Wage Councils, consisting of representatives of government, employers, and trade unions, with academics added, led the process of setting regional minimum wages. This development seems to have happened rather autonomously, without apparent reference to foreign examples although similar tripartite bodies known as Wage Boards already existed in India and Pakistan. As such, in Indonesia the creation of the Wage Councils did not arouse much debate at the time. Initially, in its 2010 'Indonesia Jobs Report', the World Bank welcomed the growing role of the Wage Councils arguing that "parties engaged in more constructive minimum wage negotiations (....) took economy-wide considerations into account" (World Bank, 2010: 93). However, the processes thus created and related to the predominantly political negotiations whereby unions, employers and government representatives try, in their own ways, to influence the outcomes, lacked administrative guidance: the official Regulations did not detail the operations of the National Wage Council nor of the Regional Wage Councils (already noted in Tjandra and Van Klaveren, 2015: 146).

Public discussion in Indonesia mainly focused on the material basis for minimum-wage setting, that is, on the basket of basic food and other commodities. According to the revised Ministerial Regulation No. 17/2005, surveys of prices of such a basket in local markets should provide the basis for estimating the district's KHL. Wage Council discussions on the survey outcomes were supposed to result in joint recommendations to the provincial governors on next year's minimum wage rates. However, the parties involved mostly approached the survey and subsequent decision-making from different angles. Regional union alliances targeted the level of the KHL whereas employers' and government's representatives tended to regard setting the KHL as a mere formality; they focused on the uprating percentage as such. In practice, the exchange of arguments concentrated on the number of items in the 'basket', the quality of the goods and services to be measured and the inflation rate. Union alliances and employers often undertook their own surveys and arrived at different estimates of the KHL, and consequently of the minimum wage level. The lack of legal rules of conduct for the Wage Councils was not helpful in guiding this process. As a result, the provincial governors were often confronted with competing estimates and these elected politicians had to arbitrate between these (Cornwell and Anas, 2013: 23; Tjandra, 2016: 173-176, 182-186). More generally, the lack of central administrative guidance came to the fore as a major flaw, a flaw that facilitated political expediency to take on a central role in minimum-wage setting. This lack of guidance continued to be pretty unnoticed, both in documents of the successive Indonesian administrations and in the available 'external' literature.

5.3 The 2015 reform

Under the presidency of Susilo Bambang Yudhoyono (two terms, 2004-2014), various proposals were brought forward for revising the minimum wage fixing system. However, the 'SBY' administration showed no commitment to push through reforms. This changed in 2014, when Joko Widodo was elected President (re-elected in 2019). Straight after his inauguration, the Widodo administration took up preparations for revising the system. In workshops for union representatives, ILO officials gave presentations including significant criticism of the existing framework. Yet, they failed to persuade the representatives of the main trade unions of the need for radical change. What followed does not stand out as a textbook example of tripartism. A technical team was formed including senior officials from various ministries and government agencies. None of the experts had strong links to the union movement while it has been recognised that APINDO, the main employers' association, played a significant role in the team's discussions. The unions, for their part, denied being invited to any consultations. They jointly submitted a proposal in writing that advised to maintain the current system while expanding the range of items as to calculate the KHL.

By contrast, government and APINDO officials drafted a system with automatic annual adjustment as its core. This was expected to depoliticise the 'KHL process', eliminate the influence of strikes and other workers' protests on the minimum-wage setting process, and reduce the uncertainty facing business about future labour cost developments. In brief, the reform would produce a more "fair, simple and reliable" system (Allen and Kyloh, 2016, 20, 44-45, 53). The new Government Regulation (No. 78) on Wages based on this draft was enacted in 2015. Under this regulation, all provincial, district and municipal minimum wage levels should be adjusted annually to reflect the percentage increase in the national CPI (Consumer Price Index) and the annual percentage increase in the GDP as the national rate of economic growth in the previous year. Thus, the uprating mechanism changed, though the KHL index as such remained the basis for regional-differentiated minimum wage-setting. Under the new Regulation 78, the index could be adjusted every five years, to be determined by the Regional Wage Councils.

At the time of finalizing my original contribition (mid-2020), Indonesia had four kinds of minimum wages defined by sector, province, district and city. Moreover, all four types intersected, generating hundreds of minimum wage rates. At the provincial level, for example, the Minimum Wage Province (MWP) and the Minimum Wage Sectoral Province (MWSP) could co-exist, while the same applied at the district or city levels for the Minimum Wage District or City (MWD/City) and the Minimum Wage Sectoral District/City (MWSD/City). In May 2019, according to the WageIndicator Minimum Wages Database Indonesia had no less than 287 minimum wages with a regional dimension (MWP and MWD/city) (Tijdens and Van Klaveren, 2019). Besides these minimum wages, sectoral minimum wages existed in many, but not all, provinces; their number remained unknown as documenting them met considerable problems. The 2015 Regulation prescribed that, though finally to be established by the provincial governor, the sectoral minimum wage should be based on agreement between an employers' association and a trade union. Also, uprating this minimum wage depended on collective bargaining; at this level the CPI/GDP formula did not apply.

Obviously, this part of Regulation 78 codified a practice in which the sub-system of sectoral minimum wages has emerged bottom-up, that is, where workers have organized at sectoral level in union alliances and have bargained for wages higher than the district or province minimum wages (Allen and Kyloh, 2016: 58; Tjandra and Van Klaveren, 2015: 142-143). The framework for setting the sectoral minimum wage took the regional KHL as a base, while bargained 'extras' could be added based on factors such as productivity and skills. Examples from the Purwakarta District showed that on this basis in practice sectoral minimum wages might rise to over 30 percent above the district minimum wage (like in the automobile manufacturing and large-scale food and beverage industries) but might also remain up to 15 percent lower than the district minimum wage (such as in the clothing and footwear industries) (cf. WageIndicator Minimum Wage Indonesia database). The latter outcome implied a violation of the 2015 Regulation, which stated that: "The provincial sectoral minimum Wage .... must be higher than the provincial minimum Wage in the concerned province" (Article 49, ad 3).

5.4 The 2020/21 reform

In early 2020, the Widodo II administration announced a broad and thorough revision of Indonesia's legislative regime with the aim to give a boost to the development of manufacturing industry and to foreign investment, in particular by cutting the 'red tape' of the country's bureaucracy. The so-called ' Omnibus' bill, proposed on 12 February 2020 on this behalf, sparked widespread protests, notably from environmentalists and trade unions, the latter led by the KSBSI and KSPI federations. The partly violent character these protests took on may not hide the underlying justified objections, as indicated below when focusing on minimum-wage setting.

Finally, on 5 October 2020 the Indonesian parliament passed the 'Omnibus' Law (Law No 11/2020 on Job Creation), introducing significant changes in the country's legislative regime on employment, investment, immigration, environmental standards, business licensing and building permits (Ahmad, 2021). The law came into effect on 2 November 2020. In combination with the subsequent Government Regulation (GR) No. 36 on wages, effective from 2 February 2021, the new legislation changed or specified a number of minimum wage rules, in particular:

- eliminating the sectoral minimum wage, though sectoral wages notified earlier would remain effective until they expire, except in cases where the provincial or district minimum wages are higher than the sectoral minimum wages;
- denoting the regional, ie. provincial, minimum wage (determined/notified by the Governor under the recommendation of the Provincial Minimum Wage Council) as the primary benchmark; district or city-level minimum wages may also be regarded as such if the district's average economic growth is higher than the provincial growth rate for the last three years;
- introducing an option for micro and small enterprises (MSEs) to provide wages below the minimum wage and to pay, under certain conditions, wages based on agreement between the employer and workers within the company[1];
- introducing a new formula to calculate minimum wages that leaves out the KHL weighting factor. Decent living needs are no longer a point of departure; instead, the new formula is based on economic and employment conditions including variables of purchasing power parity, labour absorption rate, and median wages -- all data to be provided by Statistics Indonesia (BPS).

WageIndicator's labour law specialist Iftikhar Ahmad noted two major caveats as regards the 2020/21 (minimum) wage regulation. A first caveat was that through leaving out KHL as a factor in determining the minimum wage, the new legislation takes away which could, though weakened by the 2015 reform, still be regarded as a key function of the Provincial Minimum Wage Council. In the concluding section I will return to this issue. Ahmad's second caveat concerned the opportunities the new legislation has opened up for micro-entrepreneurs and small businesses to pay wages below the statutory minimum wage: "This wage exemption rule is a clear violation of the universal right to wages, which states that everyone is entitled to a fair and decent wage without any discrimination in any form". The current author agrees with the warning of the labour law specialist referring to Indonesian labour market figures as cited by the ILO (2019): "Considering the fact that since micro and small enterprises

1 The wage is a. at least 50% of the average public consumption at the provincial level; and b. at least 25% above the poverty line at the provincial level. Micro and small enterprises are defined as those relying on traditional resources and not engaging in high-tech and non-capital-intensive businesses. Ahmad (2021: 5) adds the reservation that "(…) there is no supervisory mechanism to check whether the small and micro businesses meet the above conditions and are eligible for the exemptions" [in the new minimum wage regulation].

ged in wage employment", the reform has the potential to deprive millions of wage workers of their right to decent wages and ultimately decent work" (Ahmad, 2021: 5).

6. THE VALUE OF THE MINIMUM WAGE IN INDONESIA

6.1 Minimum wages and general wage levels

As noted, for the 2000s ILO research found a spike in Indonesia's earning distribution around the minimum wage level. Towards the end of that decade this concentration shifted somewhat upward but became even stronger (that is, showing a smaller bandwidth: Rani et al., 2013: 389). The Kaitz index is important here. That index as applied in the average wage levels, after being on or slightly above 50 percent in 1998-2002, increased to 70 percent in 2006, decreased to 62 percent in 2009 and by 2011 stood at 65 percent. This showed that between 1998-2002 and 2011 the increases in the level of the minimum wages were larger than the increases of the average or median wage levels (Tjandra and Van Klaveren, 2015: 150).

The Asian Development Bank (ADB) reported the Kaitz index for 2015 to have reached 83 percent. The ADB noted that in August 2015 the average wage was 1.4 times higher than the median wage for regular employees, confirming that also for a group of relatively privileged workers the earnings distribution had developed highly skewed, with many in this group left with earnings below the average wage (Allen, 2016: 23-25). A skewed income distribution means that Kaitz values based on the ***median*** wage would end up considerably higher, for Indonesia by 2019 most likely between 130 and 140 percent. Compared with other countries, this difference is rather extreme (Van Klaveren et al., 2015: 351). All available evidence shows that the minimum wages in Indonesia, instead of being a wage floor, have become the effective wage for most of the workers --most likely 60-80 percent-- in the formal sector. Dewi (2018) concluded that the effectiveness of Indonesian minimum wage policies in lifting the wages of the low-paid (mainly observed in the formal sector) have decreased: in 2007 these policies were more effective than in 2014. In that last year, minimum wage hikes turned out to have only a small positive impact on the incomes of the poor; the best results affected those employed earning around the median wage.

6.2 Minimum wages and the cost of living

Of course, the wage levels indicated above have to be confronted with the cost of living. In the course of the 2000s, evidence piled up that the minimum wages did not provide a decent standard of living for large parts of the Indonesian population, if departing from the purchasing power of a single-income household of three consumption units (three adults or two adults and two children). In 2007, the KHL-linked food and non-food costs for three consumption units were calculated at over 2.5 times the prevailing average minimum wage (Alatas and Cameron, 2008). There is evidence that since then in many regions the gap between the minimum wages and the cost of living has remained at about the same level. Remarkably, in 2013 the minimum wages in Jakarta, the country's highest in nominal terms, were equivalent to an income of less than USD 1 per day for a single-income household of four persons. The researchers tracing this added that increases in household income from this low level could "have a nontrivial positive impact on worker productivity by improving nutrition and allowing better access to health care" (Cornwell and Anas, 2013: 22).

For 2016, WageIndicator research focusing on garment manufacturing calculated living wages compared to which virtually all average wage levels were low. For instance, the lower-bound living wage calculated for a standard family of four was 20 percent above the average upper-bound wage of a high-skilled worker (Van Klaveren, 2016: 57). It has to be added that both paid and minimum wage levels and cost-of-living levels show large differences across Indonesia. In 2018 minimum wages in the three Javanese provinces where most garment factories are located were somewhat higher than the living wage for a single adult without children calculated by the WageIndicator; yet, they remained about one-fifth below the living wage for a standard family of two parents (1.8 persons on average working) and two children (WageIndicator website Indonesia, Minimum Wages and Living Wages).

6.3 Employer compliance with minimum wages

Recent messages from Indonesia's informal sector suggest a low rate of compliance with the current minimum wage legislation in at least that sector – as indicated, still covering about 60 percent of the Indonesian labour force. ILO research using household and labour force survey data from 11 developing countries in the late 2000s confirmed this suggestion, for Indonesia presenting disquieting outcomes for wage-earners in informal employment – but also for the formally employed. For 2005 this research estimated an overall compliance rate among Indonesian wage-earners of 65 percent. For 2009 that rate had decreased to 49 percent: the lowest of all countries covered. A strong fall of compliance in the informal sector (from 60 to 35 percent) combined with a lower but still substantial decrease in the formal sector (from 67 to 55 percent). The trend in compliance for Indonesian ***female*** wage-earners was particularly disquieting: a decrease from 50 to 39 percent in four years' time, the latter percentage again being the lowest of 11 countries (Rani et al., 2013: 409).

An ILO report showed that for Indonesia full compliance for regular wage employment could bring down inequality substantially: based on 2014 data, the wage inequality Gini would have been brought down by 0.11 percentage-points -- thus about one quarter lower (Allen and Kyloh, 2016: 79). The ADB 2016 report produced similar outcomes. It concluded for Indonesia "that the high level of non-compliance among regular employees and the low level of earnings among informal workers means that minimum wages do not provide an effective floor for wages" (Allen, 2016: 24). The most recent World Bank report specifies that "(....) even contracted wage employees face vulnerability due to low compliance under the current worker protection policies. In 2019, only 43.5 percent of wage employees ***with permanent contract*** receive the full worker protection benefits and receive wage above the minimum wage, or 10 percent of total wage employees" (2021: 32, fn 40).

Recently compliance in a specific sector of Indonesian manufacturing, the garment industry, has been measured through the Gajimu DecentWorkCheck Survey: a WageIndicator survey, part of the Gajimu.com/Garment project, allowing workers to test whether their jobs comply with the national labour legislation including the applicable minimum wage rates (The reference for the minimum wage rates was based on the rates applicable to the location of the factory, either a city or a region within a province). This survey started July 16, 2017. A first analysis based on data collected until 6 August 2018 covered nearly 3,200 interviews with employees – in large majority employed in a formal relationship, with 84 percent of employers providing a written contract. It revealed that 86 percent of the workers surveyed had been paid at least the relevant minimum wage, and that payments were almost always on time. Compliance rates for male workers were significantly higher than for their female colleagues (90 versus 84 percent). The compliance rates found in this survey may seem remarkably high, even keeping in mind that only the formal sector was covered. It may be assumed that these outcomes were positively influenced by the selection of factories where trade unions had access to (Tijdens et al., 2018). It should be added that by August 2021 the minimum wage compliance rate for the 115 garment factories surveyed by then with valid answers had decreased somewhat, to 77 percent (website Gajimu DecentWorkCheck Survey).

7. THE POLITICS OF MINIMUM WAGE-SETTING IN INDONESIA

7.1 Introduction

The Widodo I administration aimed to 'depoliticize' wage-setting though the 2015 minimum wage fixing reform. However, the opposite happened. Both in anticipation of, and in reaction to, the reforms, the trade union movement organized mass demonstrations: late 2015 and early 2016 saw a wave of protest strikes. The other social partners did not undertake much to de-escalate matters, to say the least. Within the government apparatus, monitoring of workers assumed to be strike leaders was coordinated with the national police and the state intelligence agency; according to the Workers' Group of the ILO, "anti-union violence by police (….) is again on the rise" (Allen and Kyloh, 2016: 16). The national employers' association, APINDO, claimed that a national strike held in late November 2015 was illegal. In February 2016, international trade union leaders participated in large demonstrations in Jakarta against the new Regulation. The next events could have been anticipated. In late 2015, in response to the new reform, the ITUC, the international trade union umbrella, had already "strongly criticised the decision of the Indonesian Government to change the minimum wage fixing system, eliminating any role for unions in the process". There are also quite some indications that in the Widodo administrations the existence of minimum wages at best has been regarded as a necessary evil. A striking example can be found in a contribution from 2018 to an Indonesian academic journal, co-authored by a high-level government official, that contains a fierce (but weakly underpinned) attack on any minimum wage policy (McLeod and Rosdaniah, 2018: 298-301)[2].

7.2 The 2015 reform: effects on employment and wage growth

Not only from the employers' side but also from academic quarters (Dong and Manning, 2017: 21; Hamilton-Hart and Schulze, 2016: 282) uncertainty and unpredictability have been denounced as disadvantages of the old system. The new system in place since 2015 may indeed have diminished some disadvantages. However, it can be questioned whether this outcome outweighs new disadvantages that have emerged. A first issue is the development of employment. In 2016 an ILO evaluation concluded that between 2009 and 2014 the system was sufficient to encourage up-skilling and labour mobility from low-skilled labour-intensive activities to higher skilled capital-intensive industries (Allen and Kyloh, 2016: 42). The ILO researchers also referred to the modest wage increases that the old system had brought forward in most provinces between 2003 and 2012, a period in which real yearly GDP growth was in the 5-7 percent range while the annual increase in the CPI averaged 7.3 percent. The ILO researchers applied the new formula on detailed 2004-2015 data and concluded that in those 12 years this formula would have generated quite high nominal minimum wage increases, between 12 and 15 percent annually. Even in a province like Jakarta, with relatively high minimum wages, applying the new formula would have led to significantly higher minimum wage levels between 2004 to 2012; only in 2013-2015 did the actual minimum wages in Jakarta very marginally exceed what the new formula would have generated. Projected against these figures the new uprating mechanism might be questioned from an economic perspective.

2 To cite just one of manifold weaknesses in this contribution: "The notion that Indonesia's workers could enjoy increasing incomes in the absence of MWs seems never to be considered, notwithstanding that many countries have never introduced them" (McLeod and Rosdaniah, 2018: 300). By contrast, and far from 'many countries', recently only 16 of 197 countries in the world (8%) had no statutory minimum wage (WageIndicator Minimum Wage Database).

For a province with relatively low minimum wages, like DI Yogyakarta, application of the new formula would have produced a substantially higher minimum wage in each of 12 years. Nevertheless, the gap between 'high' and 'low' minimum wage provinces would have widened over time. In conclusion, the application of the new formula would have led to ***higher*** nominal wage levels in most regions and most years between 2004 and 2015 compared to what actually occurred (Allen and Kyloh, 2016: 46-49). In view of this analysis, the fear for wider income gaps as a consequence of the 2015 fixing system articulated by the ITUC and affiliated trade union bodies seems justified.

The outcomes of the ILO evaluation show two more disadvantages of the new uprating system. First, the fact that the development of local productivity cannot be taken into account can be regarded as disadvantageous. As noted by among others Hamilton-Hart and Schulze (2016: 282), the new system lacks a procedure for investigating and including local productivity growth. Second, the current formula leaves aside specific local developments in the cost of living and changes in the composition of the 'basket' of basic food and other commodities within five-year intervals (Allen and Kyloh, 2016: 54). Thus, it also makes sense to reconsider arguments regarding the competitiveness of Indonesia's labour-intensive manufacturing industry that were alleged against the old system. For example, Dong and Manning (2017: 22-24) argued that minimum wages during the Yudhoyono II years (2010–14) rose much faster in the industrial centres in Greater Jakarta and Surabaya than in most other industrial regions. They linked these differences to the relocation of capital in labour-intensive industries —garments and to a lesser extent footwear— away from the main industrial centres to smaller urban regions in West, Central and East Java.

It is rather ironic to conclude that under the new system prescribed in 2015 the regional wage differences would have increased even more whereas the old system would have put the brakes on these differences and the related relocation, at least to some extent. While wage levels in the garment industry –especially in Central Java-- are already higher than those of notably Bangladesh, such an unfavourable margin would most likely increase with the application of the new formula (Allen and Kyloh, 2016: 50, confirmed by data from Van Klaveren, 2016).

7.3 Minimum wage-setting and collective bargaining

The relationship between minimum wage setting and collective bargaining is of major importance. Tjandra (2016: 287) has observed that since 1998 the Indonesian state has become more ambiguous with respect to the role of minimum wages. Successive Indonesian administrations would have liked to turn minimum wages into a genuine wage floor, while dominant forces in these administrations have obviously been reluctant to leave wage-setting to free collective bargaining. In conjunction with 'hardliners' dominating the APINDO employers' association, government officials have repeatedly depicted processes related to the old minimum wage system as ineffective and subject to undemocratic influences. We assessed in the above the 'ineffectiveness' argument as weak. Concerning the 'undemocratic' argument, it should be emphasized that Indonesia's collective bargaining system is weakly developed and that trade unions willing to engage in meaningful bargaining for the most part face a number of serious constraints. Under these conditions, minimum-wage setting has remained for many unions virtually the only forum left to show their functionality: what they are doing to act on behalf of their members and the workers in general. Moreover, at least until 2015 minimum wage fixing has acted as a unifying issue in the union movement at regional, sectoral and company level. Debates related to decision-making in the regional (minimum) Wage Councils have been crucial in developing union alliances (Tjandra, 2016: 171-175).

8. CONCLUSIONS

In Indonesia under the Widodo I administration (2014-2019) 'free collective bargaining' has for the most part been equivalent to the setting of sectoral minimum wages. In a context of weak or absent collective bargaining, Indonesia was already illustrative of a specific type of 'isolated (multiple) minimum wages' (see Dingeldey et al., 2021: 8). However, like in other countries, the institutional scenario is not static. Indeed, there are important questions left on whether the proactive roles of unions and employers in fixing minimum wages might be a spur to collective bargaining. Researchers reporting on behalf of the ILO have suggested that the setting of sectoral minimum wages in Indonesia may be regarded as a substitute for ***limited*** collective bargaining, and might also be used to provide a base for moving towards ***mature*** collective bargaining (Allen and Kyloh, 2016: 58–59, 68–69). In the book version of this paper, I noted that the evidence presented "suggests that this viewpoint may be overly optimistic: both options seem rather illusory in view of recent developments in the country's labour relations" (203). It seems this assessment has to be sharpened when taking into account the substance of the 2020/21 law reform carried out by the Widodo II administration. The 'laboratory' role that sectoral minimum-wage setting, related to the functioning of provincial Minimum Wage Councils, could have taken on, seems by then to have been aborted effectively -- at least for some years to come.

Indeed, it is unlikely that Indonesia's more restrictive decision-making on minimum wages along the lines of the 2015 and 2020/21 reforms would spark free collective bargaining. Clearly, Indonesia is one of those countries where relatively high minimum wages can be attributed at least to some extent to underdeveloped collective bargaining systems. Nevertheless, it must be equally clear that in the Indonesian case the strengthening of collective bargaining is needed to address wage and income inequality more effectively; the more effective use of statutory minimum wage mechanisms alone would not be sufficient in this regard: "The most effective policy response, however, would be to intervene to strengthen collective institutions" (Lee and McCann, 2014: 15). Steps towards free and more effective collective bargaining, to be taken by the national administration, have the potential to alleviate the current pressure on the minimum-wage fixing system and may well depoliticize that system.

REFERENCES

Ahmad, I. (2021) Labour Law Reform in Indonesia. A comparison with international labour standards. Amsterdam: Mondiaal FNV

Alatas, V. and Cameron, L. A. (2008) 'The impact of minimum wages on employment in a Low-income Country: A quasi-natural experiment in Indonesia.' ILR Review 61(2): 201–223 (https://doi.org/10.1177/001979390806100204)

Allen, E.R. (2016) Analysis of Trends and Challenges in the Indonesian Labor Market. Manila: Asian Development Bank Papers on Indonesia No. 16.

Allen, E.R. and Kyloh, R. (2016) Labour reforms in Indonesia: An agenda for greater equity and efficiency. Manila: International Labour Office / Asian Development Bank

BPS (Statistics Indonesia) (2016) Keadaan Angkatan Kerja di Indonesia (Labour Force Statistics) August

Cornwell, K. and Anas, T. (2013) 'Survey of recent developments.' Bulletin of Indonesian Economic Studies 49(1): 7-33 (doi/full/10.1080/00074918.2013.772937)

Dewi, S.G. (2018) 'The effects of minimum wage throughout the wage distribution in Indonesia.' Jurnal Ilmu Ekonomi 7(2): 221–232 (doi: http//dx.doi.org/10.15408/sjie.v7i2.6125)

Dingeldey, I., Grimshaw, D. and Schulten, T. (eds) (2021) 'Chapter 1. Introduction. Minimum wage regimes in Europe and selected developing countries', in Dingeldey, I., Grimshaw, D. and Schulten, T. (eds) Minimum Wage Regimes. Statutory Regulation, Collective Bargaining and Adequate Levels. London / New York: Routledge: 1-16

Dong, S.X. and Manning, C. (2017) 'Labour Market Developments at a Time of Heightened Uncertainty.' Bulletin of Indonesian Economic Studies 53(1): 1-25 (https://doi.org/10.1080/00074918.2017.1326201)

Hamilton-Hart, N. and Schulze, G.G. (2016) 'Taxing Times in Indonesia: The Challenge of Restoring Competitiveness and the Search for Fiscal Space.' Bulletin of Indonesian Economic Studies 52(3): 265-295 (https://doi.org/10.1080/00074918.2016.1249263)

ITUC (International Trade Union Confederation) (2015) 'Indonesia: Minimum Wage Changes Unacceptable' (https://www.ituc-csi.org/indonesia-minimum-wage-changes, 16 October)

International Labour Organization (ILO) (2017) Indonesia Jobs Outlook 2017: Harnessing technology for growth and job creation. Geneva

ILO (2019) Promoting Micro and Small Enterprises through Improved Entrepreneurs' Access to Financial Services (PROMISE IMPACTS)/Background (https://www.ilo.org/jakarta/whatwedo/projects/WCMS_444105/lang--en/index.htm)

Lee, S. and McCann, D. (2014) 'Regulatory Indeterminacy and Protection in Contemporary Labour Markets: Innovation in Research and Policy', in McCann, D., Lee, S., Belser, P., Fenwick, C., Howe, J. and Luebker, M. (eds) Creative Labour Regulation: Indeterminacy and Protection in an Uncertain World. Geneva/Basingstoke: ILO/Palgrave Macmillan: 3-32

McLeod, R.H. and Rosdaniah, S. (2018) 'An evaluation of some key economic policies.' Bulletin of Indonesian Economic Studies 54(3): 279-306 (https://doi.org/10.1080/00074918.2018.1548245)

Mishra, S.C. (2009) Economic inequality in Indonesia. Trends, causes, and policy response. Colombo: Strategic Asia, commissioned for UNDP Regional Office

O'Neill, A. (2021) 'Indonesia: Urbanization from 2010 to 2020', July 1 (https://www.statista.com/statistics/455835/urbanization-in-indonesia/)

Rama, M. (1996) The Consequences of Doubling the Minimum Wage: The Case of Indonesia. Washington DC: World Bank Policy Research Working Paper No. 1643

Rani, U., Belser, P., Oelz, M. and Ranjbar, S. (2013) 'Minimum wage coverage and compliance in developing countries.' International Labour Review 152(3-4): 381–410 (https://doi.org/10.1111/j.1564-913X.2013.00197.x)

SMERU Research Institute (2001) Wage and Employment Effects of Minimum Wage Policy in the Indonesian Urban Labor Market. Research Paper. Jakarta

Tadjoeddin, M.Z. (2016) 'Earnings, productivity and inequality in Indonesia.' The Economic and Labour Relations Review 27(2): 248–271 (https://doi.org/10.1177/1035304616643452)

Tijdens, K.G., Van Klaveren, M. and Pralitasari, N. (2018) Compliance with Labour Law and Minimum Wages in the garment industry in Indonesia. Report of the Gajimu DecentWorkCheck Survey of WageIndicator in Indonesia 2017-2018. Amsterdam: WageIndicator Foundation

Tijdens, K.G. and Van Klaveren, M. (2019) Understanding the Drivers of Minimum Wage-Setting: An analysis of 146 countries. Paper prepared for the 6th Conference of the Regulating for Decent Work (RDW) Network, ILO, Geneva, 8-10 July 2019. WageIndicator Foundation

Tjandra, S. (2016) Labour Law and Development in Indonesia. Leiden: Leiden University Repository

Tjandra, S. and Van Klaveren, M. (2015) 'Chapter 8. Indonesia', in Van Klaveren, M., Gregory, D. and Schulten, T. (eds) Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe. A Labour Perspective. Basingstoke: Palgrave Macmillan, 139-155

Van Klaveren, M. (2015) 'Chapter 1. Asia: A Comparative Perspective', in Van Klaveren, M., Gregory, D. and Schulten, T. (eds) op.cit.: 1-18

Van Klaveren, M. (ed.) (2016) Wages in Context in the Garment Industry in Asia. Amsterdam: WageIndicator Foundation

WageIndicator Archive – Living Wage Series – Indonesia (2016-2019) (https://wageindicator.org/salary/living-wage/archive-no-index/indonesia-living-wage-series-september-2019)

WageIndicator Collective Bargaining Agreements Database/Indonesia (Indonesian) (https://gaji-mu.com/pekerjaan-yanglayak/perjanjian-kerja-bersama-basis-data, last accessed 26 August 2021)

WageIndicator Minimum Wage Indonesia https://wageindicator.org/salary/minimum-wage/indonesia/ , last accessed 26 August 2021)

WageIndicator Work and Wages in Indonesia (https://wageindicator.org/labour-laws/labour-law-around-the-world/minimum-wages-regulations/minimum-wages-regulations-indonesia, update 2021-04-07)

WageIndicator Gajimu.com/Garment project (https://gajimu.com/garment, last accessed 26 August 2021)

WageIndicator DecentWorkCheck.org (https://decentworkcheck.org/company-overviews/garment-factories-in-indonesia, last accessed 26 August 2021)

World Bank (1996) Indonesia: Dimensions of Growth. Washington DC

World Bank (2010) Indonesia Jobs Report: Towards Better Jobs and Security for All. Jakarta/Washington DC

World Bank (2016) Indonesia's Rising Divide. Why inequality is rising, why it matters and what can be done. Jakarta/Washington DC

World Bank (2021) Indonesia Economic Prospects. Boosting the Recovery. Jakarta: World Bank/Bank Dunia, June