



Universiteit  
Leiden  
The Netherlands

## Labour law and development in Indonesia

Tjandra, S.

### Citation

Tjandra, S. (2016, February 4). *Labour law and development in Indonesia*. Meijers-reeks.  
Retrieved from <https://hdl.handle.net/1887/37576>

Version: Corrected Publisher's Version

License: [Licence agreement concerning inclusion of doctoral thesis in the Institutional Repository of the University of Leiden](#)

Downloaded from: <https://hdl.handle.net/1887/37576>

**Note:** To cite this publication please use the final published version (if applicable).

Cover Page



Universiteit Leiden



The handle <http://hdl.handle.net/1887/37576> holds various files of this Leiden University dissertation

**Author:** Tjandra, Surya

**Title:** Labour law and development in Indonesia

**Issue Date:** 2016-02-04

## 5 The law and politics of minimum wage setting

*[M]inimum wage is not about economic models, but about how some economic models can be put to the service of political interests.*

(Levin-Waldman, 2001: xiii)

### 1 INTRODUCTION

This chapter focuses on the relationship between labour law and the labour market in Indonesia, in the context of the country's most heatedly-debated labour issue: minimum wage policy.<sup>1</sup> The concept of a minimum wage policy emerged soon after Indonesia's independence in 1945, and began to receive serious government attention in the late 1950s. Despite this early interest, a policy was not adopted formally until the late 1960s; and only implemented in the early 1970s, during the New Order. During the following 40 years, in particular since the 1998 reforms, minimum wage policies in Indonesia have been problematic – developing into a complex nexus of legislative texts, practices and processes which often differ not only between government institutions, employers and trade unions, but also from one region to another, influenced by a diverse range of national and regional-level social, economic, political and ideological factors. To help workers and unions negotiate such complex policy issues, the regional union alliances (see Chapter 4) became important vehicles for workers; while Wage Councils were formed to serve as the institution tasked with researching and recommending minimum wage figures to the heads of regents and cities. Wage Councils are the places within which the interests of workers and employers are contested; and the dynamics of the struggles within these institutions offer a clear illustration of the challenges of minimum wage policies in practice, within the existing labour law framework in Indonesia.

---

1 The term 'minimum wage(s)' has several definitions. In this chapter, we follow the definition used in most frequently in ILO publications – i.e., the legally enforceable lower limit(s) of wages, fixed by a process invoking the authority of the State, and excluding the limits that have only the force of recommendation, and the lower limits to wages fixed in collective agreement (see for example Starr, 1981: vii).

It may be argued that laws and regulations are manifestations of the economic, political and ideological conflicts and compromises which arise naturally between diverse groups in the pluralistic society; and this chapter argues that the issue of minimum wage policies should be viewed no differently. The chapter's argument will be informed by the political approach to the study of minimum wage, developed by, among others, Levin-Waldman (2000, 2001, 2005), who challenges the dominance of the prevailing economic approach in studying minimum wage. As Levin-Waldman noted (2001: xii):

The minimum wage is not about some losing their jobs so that others can receive an immediate increase in pay. Rather it is about what we as a political community believe the end product of work ought to be. Do we believe that we have an obligation to ensure that those who work, even in the least attractive jobs, will earn wages sufficient for subsistence? The minimum wage raises the question: What do we, as a community owe to those who work?

As explained by Levin-Waldman (2001: 2-4), this approach does not reject the usefulness of the economic model in analyzing minimum wage policies and related issues; rather, it stresses the importance of considering politics as part of the analysis, in combination with the dominant economic approach. To date, the minimum wage has been studied largely through an economic lens, with a focus on economic models, which have been considered responsible for driving the policy process. Levin-Waldman suggests that this misses the political point that the minimum wage is a crucial aspect of state policy, designed to protect particular sectors of society; and that an understanding of how state policies are formed is critical to a larger understanding of minimum wage issues. As Levin-Waldman (2001: 3) notes: '[the minimum wage] issue involves the interaction between economic forces and public institutions, for state policy is inevitably a response to those forces and/or to a particular group of interests seeking to make an issue out of them.'

This chapter will demonstrate that one major difference between the *Reformasi* era and the earlier, authoritarian New Order era is that under *Reformasi*, unions have more opportunities to become involved in the minimum wage setting processes, especially through the Wage Councils established in the regions. However, unions have remained relatively weak, so their involvement in wage setting has not necessarily resulted in a better position for workers in general. Lack of compliance by employers, and lack of enforcement by government, have further eroded the positive impact that minimum wage policies might otherwise have achieved. The existing minimum wage is also set too low to offer effective protection for workers. Despite ongoing efforts to achieve better wages in Indonesia, wages remain at a level at which 40-50 percent of average salaries are used to meet minimum food

requirements (Merk, 2009).<sup>2</sup> The situation is worsened by the lack of a social security scheme in Indonesia, and the minimum wage has not been used as a 'social floor'.<sup>3</sup>

This chapter analyses the history and practice of minimum wage setting in Indonesia, particularly the situation in regional areas since regional autonomy has increased; and the roles and influence of organized labour on wage-setting decisions. The evidence presented here suggests that despite the challenges that trade unions have faced (see Chapter 4), unions and labour activists have learned effective strategies for positioning themselves strongly, when bargaining for better wages for workers. In situations where the minimum wage setting processes established in various regions have prevented unions from using collective bargaining mechanisms at the company or industry level, the Wage Councils have become the main avenue by which labour can participate in the wage setting process, with unions relying on a combination of legal and political activities to assist their struggle. The decentralization of minimum wage setting to the regions has presented both benefits and challenges for labour's efforts to develop minimum wages as a social policy tool and as a benchmark for collective bargaining. Competition and differences in local political dynamics between regions, combined with the fragmentation of unions, weak central union organizations, and challenges associated with the existing surplus of labour in Indonesia, have resulted in a wide range of outcomes with respect to minimum wage setting, between different regions and industry sectors. In the absence of clear support, at the national government level, for the existence of unions and their right to undertake collective bargaining; and in the absence of employers' interest in working constructively with unions, minimum wage setting has remained largely an area of conflict without significant agreement. This chapter will explore these issues in two parts. The first part of the chapter, sub-chapters 2 and 3, will analyse the legal-institutional aspects of minimum wage setting in Indonesia, and the second part, sub-chapters 4 to 6, will present and analyse a representative case study, in order to illustrate minimum wage setting in practice.

---

2 The definition of a 'decent wage' or 'living wage' is quite broad, but it is generally accepted that a decent wage should enable the earner and their family to meet the most basic costs of living, without the need for direct government financial support or poverty programmes. The Living Wage Action Coalition, for instance, considers a living wage to mean that 'an individual can take pride in her work and enjoy the decency of a life beyond poverty, beyond an endless cycle of working and sleeping, beyond the ditch of poverty wages' ([www.livingwageaction.org](http://www.livingwageaction.org)).

3 The minimum wage is used as a 'social floor' if minimum wage policy is linked to the social security of vulnerable groups – such as retirement benefits for pensioners, with minimum wages increasing as required to maintain the purchasing power of the very poorest – and/or linked to economic growth, with the aim that society as a whole will benefit from the fruits of progress brought about by economic development (see Eyraud and Saget, 2008: 107-8). Neither of these links has been established in Indonesia.

## 2 THE EVOLUTION OF MINIMUM WAGE POLICIES

Particularly since the end of World War II, the minimum wage has become an attractive policy tool for poverty reduction and social justice, in both developed and developing countries. As a policy, the minimum wage has several benefits for governments: it does not require significant direct government expenditure; it is a relatively simple and highly-visible way for a government to demonstrate its commitment to social justice, by directly targeting the poorest workers; and it enables the government to remain directly involved in labour market operations (avoiding the neo-liberal approach of minimizing government involvement in market mechanisms, Starr, 1981). Alternative social programs, such as poverty reduction through cash transfers or public works, tend to be less attractive for government as they may be more difficult to target and monitor; may often include high non-labour costs; and may create political-economic disputes about, for example, which groups in society should be beneficiaries, and to what extent (Cunningham, 2007). Thus, the characteristics of the minimum wage, including self-targeting worker incentives and a direct labour market-focus, make it an attractive social protection tool for many countries.

For developing countries in particular, there are other reasons why the minimum wage may be appealing, or readily accepted. The principle of minimum wage regulation may have been transplanted to them, from the former colonial powers with which they had historical ties. In addition, more proactive newly independent countries may want to align their labour legislation closely with the international labour standards; due either to concern for their citizens' rights, or concern about international perceptions. There may also be more fundamental reasons, related to labour market conditions and the general orientation of government policies. The low living standards of many wage earners, and the scarcity of jobs, may intensify pressure on new governments to take action, and a minimum wage policy is a visible and simple way to provide the required protection; while also retaining direct government involvement in the labour market – especially in countries where strong industrial relations systems for unions and employers have not yet developed.

In Indonesia, the first attempt to develop processes for determining wage rates was in the mid-1950s, when the Indonesian government requested the ILO for technical assistance on two issues: wage policy and industrial relations (ILO, 1958). This request was in response to growing labour unrest in Indonesia, which was aggravating the country's economic situation. The government hoped to receive the ILO's advice on wage-fixing standards, and on the most appropriate methods for the social and economic conditions of the time. It also hoped to receive advice about the organization and operation of Indonesia's existing labour dispute settlement mechanisms, developed earlier as Emergency Law No. 16/1951 on labour dispute settle-

ment (see Chapter 2). In response to this request, the ILO sent an advisor, W.J. Hull, to Indonesia between 1 October 1955 and 26 December 1956, who submitted a report to the Indonesian government in 1958. The report not only provided an analysis about the existing situation, but also made recommendations about an appropriate wage-fixing system and institutional and organizational reforms to improve the existing mechanisms for labour dispute settlement. Drafts of appropriate wage-related legislation were also included, along with comments on the then draft law for settlement of labour dispute.<sup>4</sup>

The report included an explicit statement of the principles behind wage setting: 'the ultimate goal of wages policy should be to ensure that all wage earners earn at least a living wage from their principal employment' (ILO, 1958: 3). The 'living wage' was defined in the report as 'a wage, which will provide the basic essentials for supporting a man, wife and two children in a standard of life commonly accepted as tolerable in the society of which they form part'.<sup>5</sup> This was an important and ambitious target for a country that had only recently developed an industrial relations system. Despite this report, and despite Indonesia's strong labour movement in the 1950s, the government did not pass minimum wage legislation until early 1970s.

Similar to the situation in other developing countries, the wage system in Indonesia was initially developed not only as part of the market mechanism to enable the efficient allocation of resources; it was also assigned an important social policy function, to protect the weak by relating wages to needs. As noted by Arndt and Sundrum (1975: 369), the wage system that evolved after Indonesia's independence in 1945 was originally weighted towards social security objectives, and this was reflected in key features of the system, including: the importance of a high proportion of wages in kind other than financial ones; the practice of linking wage levels to the 'needs of the worker' such as the number of dependants; and the protective labour legislation, which limited an employer's right to dismiss.<sup>6</sup> One important reason for such a policy in Indonesia, in the early years of independence, was the

---

4 The Labour Dispute Settlement Law No. 22/1957 was, however, already enacted before the report was officially submitted to the Indonesian government.

5 This principle is clearly a reflection of the Preamble to the ILO Constitution of 1919, which notes that peace and harmony in the world requires 'the provision of an adequate living wage'; and reflects also the ILO Convention No. 131 on Minimum Wage Fixing, which was adopted in 1970 and which states that a minimum wage should consider 'the needs of workers and their families'. For further discussion on the history and practice of the living wage concept, see Waltman (2004), also Shelburne (1999).

6 This involved particularly the provisions requiring employers to obtain the government's permission prior to dismissing employees, as contained in Labour Dispute Settlement Law No. 22/1957 and the Dismissal at Private Undertakings Law No. 12/1964. The Industrial Relations Dispute Settlement Law No. 2/2004 later replaced both laws, and the aforementioned provisions were weakened with the establishment of the Industrial Relations Court. We will discuss this further in Chapter 7.

lack of effective alternative policy instruments (Arndt and Sundrum, 1974: 369-70). Government resources were limited, and largely already allocated to other purposes; leaving social security and welfare services inadequately provided for, relative to the situation in more socially developed states. Further, as we have seen, for various historical and political reasons the trade unions had failed to establish a strong role to participate in collective bargaining and wage negotiations. Under these circumstances, 'a wage system designed to reconcile the demands of economic efficiency and social security is a necessary compromise' (Arndt and Sundrum, 1975: 370).<sup>7</sup>

In 1969, Indonesia established the first *Dewan Penelitian Pengupahan Nasional* (DPPN, National Wage Research Council), based on President Decree No. 58/1969<sup>8</sup> and later regulated by Minister of Manpower Regulation No. 20/Men/1971. This was followed two years later by the establishment of the *Dewan Penelitian Pengupahan Daerah* (DPPD, Regional Wage Research Council), which was based on Minister of Manpower Decision No. 131/Men/1971 (see also Djarwadi, 1996: 112 and Manning, 1998: 207). According to these regulations, the Council was to comprise mainly of government officials: of the Council's 18 members, 16 were representatives from various government institutions (including academics from the state university), with the remaining 2 members being one union representative, and a representative from the employers' organization.

Although minimum wage levels which are set below or too far above existing wage levels will be ineffective, leading respectively to wage reductions or to employer disregard for minimum levels (or, if high minimum wages are enforced, to the risk of workers losing their jobs), these considerations are irrelevant if a country's wage regulations are merely cosmetic. This was the case in Indonesia during the 1970s and 1980s, when the Indonesian government not only avoided intervening in wage determination despite minimum wages being insufficient to protect workers from poverty, but also avoided enforcing the regulations which it had set up to protect workers from unfair dismissal (see Manning, 1994). In addition, during this time the government kept tight control of the trade union movement, by allowing only a single, government sanctioned union. As a result, there was little effective government or union involvement in wage setting; and the institutional context,

7 As noted by Arndt and Sundrum (1975), this 'double-job' of wage policy in Indonesia had a price. First, it could discourage the promotion of efficient use of labour and other sources provided by the operation supply and demand of labour within the labour market. And second, since the meaning of 'need' is to an extent subjective, using this criterion in a policy without including a tight definition may lead to confusion, discrimination of workers, and may primarily benefit those in waged employment, while the large numbers of 'self-employed' and the informal sector may be excluded regardless of the need for social assistance. These concerns remain real for wage policy in Indonesia even today.

8 Replaced 35 years later by President Decree No. 107/2004 on Wage Councils.

which governed wage determination, involved haphazard mechanisms that varied depending on industry sector and activity. In a review of findings from other scholars, Manning (1994: 80-81) described the existence of two extremes in wage practices in Indonesia at this time: a very loose mechanism for determining wages in the semi-formal and informal sector; and a very rigid, strict set of rules in the public sector and for government employees:

‘At one extreme, casual wage rates are often negotiated on an individual basis in rice agriculture and construction, and may vary from person to person depending on the relationship between the employer and employee (Stoler, 1977; Tjondronegoro, 1977; Hart, 1986). Wage agreements for one activity in rice may involve commitments to work on other tasks in the agricultural cycle (as in the case of *kedokan* contracts). In many construction activities, the exact wage paid to a particular individual is difficult to determine because it is at the discretion of the head of the labour team (the *mandor*) (Sjahrir, 1993). At the other extreme, government wages are rigidly determined according to educational level, years of service and position. Here, non-basic wage emoluments (both official and unofficial) play an important role in determining total labour incomes (Gray, 1979). In between, permanent and semi-permanent wage contracts in manufacturing may be based on rigid formulae such as those applied to civil servants, or among more skilled persons they may vary considerably according to skill, experience and relationship to the employer. Depending on the type and size of firm, unskilled workers have a wide range of employment contracts; these may be informal, casual arrangements or formal permanent contracts drawn up in accordance with labour legislation.’

In the late 1980s, Indonesia witnessed two important developments for its labour market. The first was the rise in labour unrest and the establishment of several independent trade unions, despite government efforts to maintain strict control and labour repression. The second development was the government’s decision to attempt to enforce the implementation of minimum wage regulations – the first such effort since the regulations were established in the early 1970s. This new effort to enforce wage policy has been seen by some as an attempt by the government to compensate for the policy’s restriction of labour rights, and to appease workers (see, e.g., Harrison and Scorse, 2005). Indonesia’s new approach to wages also coincided with growing internal and external pressure for change (Suryahadi et al., 2003, Manning, 1994). Internal pressure came partly from domestic labour rights activists and NGOs, with support from international human rights activists; and partly from individuals within government and other policy makers concerned that the growing labour unrest could hamper economic growth. External pressure came particularly from anti-sweatshop activists in the United States, who demanded better conditions for workers in Indonesia (Harrison and Scorse, 2005: 145-148; Dhanani et al., 2009: 155-167). These activists lodged complaints with United States Trade Representatives, citing Indonesia’s systematic violation of labour standards, and recommending the

removal of Indonesia's preferential trade status under the GSP (Generalised System of Preferences) for its exports to US markets.<sup>9</sup>

The Indonesian government, concerned about the potential loss of its GSP status, increased minimum wages through legislative changes, while doing little to improve other labour rights. In 1989, the government released Minister of Manpower Regulation No. 5/Men/1989 on Minimum Wages, which aimed to redesign the mechanism for setting minimum wages in the regions, with reference to minimum physical needs, the cost of living, and labour market conditions.<sup>10</sup> According to this regulation, the rate of *Kebutuhan Fisik Minimum* (KFM, Minimum Physical Needs) was determined differently from one region to another, by the Regional Wage Research Council established earlier. The KFM standard was designed in 1956 under the Djuanda Cabinet, and included estimates of various costs for food, drink, clothing and shelter for the physical sustenance of workers (Djarwadi, 1996: 111). The basis of the KFM standard was the consumer price index of the nine basic foods, and the daily calorie requirement for a single male worker (2600 calories/day) with a maximum of three dependants (K-3).<sup>11</sup>

In 1995, a broader consumption bundle aimed at satisfying 'subsistence' instead of only 'physical needs', and known as *Kebutuhan Hidup Minimum* (KHM, Minimum Subsistence Needs), was introduced through Minister of Manpower Decree No. 81/Men/1995, and confirmed by Minister of Manpower Regulation No. 3/Men/1997, to be used in the regional minimum wage setting. Minister of Manpower Regulation No. 3/Men/1997 was later replaced by Minister of Manpower Regulation No. 1/Men/1999 on Minimum Wages. Both KFM and KHM are bundles of consumption items needed for the subsistence of a single worker. The KHM costs 15 percent to 20

9 As noted by Harrison and Scorse (2005: 145) there were seven issues related to labour rights violations: 'obstruction of the right to organize, restrictions on civil servants, the right to strike, the intervention of security authorities in labor disputes, restrictions of workers' access to appeal, limited sanctions against employers, and unfair restrictions on the right to work.'

10 Under this regulation, minimum wage was defined as the lowest basic salary *excluding* other fixed benefits accepted by workers. In 1990, the government revised this regulation by releasing a new regulation, Minister of Manpower Regulation No. 01/Men/1990, in which minimum wage was defined as the lowest basic salary *including* fixed benefits, based on *daily* payment.

11 For example, a single male worker is targeted to receive 2600 calories/day; a worker with a wife (K-0) 4800 calories/day; a worker with a wife and a child (K-1) 6700 calories/day; a worker with a wife and two children (K-2) 8100 calories/day; and a worker with a wife and three children (K-3) 10000 calories/day. Despite this complex system of minimum wage calculations, the resulting purchasing power, if it delivers 2600 calories/capita/day (equal to 234 kg of rice per person annually) is too low for subsistence, according to the well-accepted 'Sayogyo's poverty line' calculations, in which total energy expenditure divided by local rice prices and number of family members gives a minimum annual food requirement equivalent to 480 kg (rural areas) and 320 kg (urban areas) of rice per person (Sayogyo, 1971).

percent more than the former KFM, and provides a broader consumption bundle of 43 items, ranging from food, clothing and housing to transport, health and recreation. It represents an increased likelihood of meeting basic human needs, compared with the KFM; for example the food bundle of the KFM was set to 2600 calories/capita/day, whereas in the KHM it is set to 3000 calories/capita/day.<sup>12</sup>

Until 2000, at the provincial level a single minimum wage would be set, which would apply throughout the entire province. The only exceptions were the regions that included 'special economic zones' and 'export processing zones' (for example Riau, South Sumatera, West Java and Bali); for which different minimum wages applied. A few provinces also applied different minimum wages for different sectors in the economy, but these wages were not allowed to be lower than the general minimum wages, which applied in the region. Until the end of 2000, these regional (provincial) minimum wages were established by a decree issued by the Minister of Manpower, following recommendations from the provinces' Governors. Although the Governors were obliged by law to take advice from the tripartite provincial Wage Councils, in practice the employee (and employer) representatives on the Councils were usually government appointees; and as most Council deliberations were conducted in secret, it is unlikely that any true union representation was achieved (Masduki et al., 1998).

Since the beginning of 2001, following the adoption and implementation of the regional autonomy policy,<sup>13</sup> the task of minimum wage setting was handed over to provincial governors.<sup>14</sup> Although the central government retained the task of specifying the criteria for setting minimum wages, the governors were put in charge of determining the actual minimum wages to be set in their province. In some cases, governors then delegated this responsibility to the mayors and regents in their regions. In addition to the previous, relatively simple mechanism for determining minimum wages, wages are now set by considering the following workers' needs; the consumer index; the current performance, development potential and sustainability record of the company; average wages in specific regions and between regions; labour market conditions; economic growth; and income per capita. In addition to minimum wages at the regional level, there are now also sectoral-level wages, whereby wages set by individual companies can be compared against others in the same sector.

---

12 This legally recognized figure is now the highest in Asia, comparing favourably to, for example, India (2700 calories), Sri Lanka (1900 calories), and Bangladesh (1700 calories) (see Merk, 2009).

13 This policy was based on Regional Governance Administration Law No. 22/1999 and Fiscal Balancing Law No. 25/1999. Law No. 32/2004 later revised Law No. 22/1999. For a critical overview on these laws, see Bunte and Ufen, (2009: 111-2).

14 Based on Minister of Manpower and Transmigration Decree No. 226/Men/2000.

The new regulations also add several provisions, which indicate progress towards the establishment of minimum wage setting mechanisms. According to the new regulations, the value of the minimum wage at the district level must be higher than the value at the provincial level; and the value of the sectoral provincial/district minimum wage must be at the least 5 percent higher than the provincial/district minimum wage. The minimum wage must be set at least 40 days before it is implemented, (implementation happens on January 1 every year); and must be revised every year. Following the enactment of Law No. 13/2003 on Manpower, the goal for minimum wages is to increase until they reach the *Kebutuhan Hidup Layak* (KHL, or 'decent living needs').<sup>15</sup> This goal takes into account productivity (GDP; workforce numbers during the same period); economic growth; and marginalised industries.<sup>16</sup> The 'components of the KHL calculations' (i.e. the list of items to be included in the cost calculations, such as food, rent and power), and the specific stages to work through to determine KHL, are regulated by Minister of Manpower and Transmigration Regulation No. 17/MEN/VIII/2005. This regulation replaced Minister of Manpower and Transmigration Decree No. 81/MEN/1995, with the addition of three new components (numbers 43 to 46), as well as the establishment of a stronger legal basis for Wage Councils at the national and regional levels.<sup>17</sup>

In 2009, the Indonesian Government enacted the Special Economic Zones Law No. 39/2009. This implementing law of article 13 of Investment Law No. 25/2007 replaced a host of earlier laws, and applies to particular zones that are 'designated to carry out an economic function, and are granted certain facilities and incentives',<sup>18</sup> in several regions in Indonesia. It has been argued, however, that such a law is a typical 'way out' for developing countries; allowing them to survive economically in the tough competition of the free world market, by using the benefit of 'comparative advantage' in 'global production sharing'. Despite the many differences between the features of economic zones worldwide, one of the universal features of 'special economic zones' is that there is an 'almost complete absent of either taxation or regulation of imports of intermediate goods into the zones' (Warr, 1990: 130). These privileges are subject to the condition that almost all of the output produced is exported, and that all imported intermediate goods are utilised fully within the zones or re-exported; these zones are therefore often also called 'export processing zones'. Although, in general, labour law remains applicable, there are often concerns about potential 'anti-union' behavior

15 See article 89 subsection (2) of Manpower Law No. 13/2003.

16 See article 88 subsection (4) of Manpower Law No. 13/2003.

17 Based on President Decree No. 107/2004 on Wage Councils.

18 See article 1 subsection 1 of the Special Economic Zone Law No. 39/2009.

and views in such zones.<sup>19</sup> In the case of Indonesia's Special Economic Zones Law, there is a provision regarding minimum wage-setting within the zones which seems to overrule the minimum wage regulations described earlier.

Unions in Indonesia have raised concerns about this provision. They argue that it is counterproductive to the stated goal of minimum wage efforts, which is to gradually achieve decent living needs for all workers. In particular, these concerns have been voiced by metal workers unions, many of whose members work in Special Economic Zones in Bekasi, West Java, and in Batam, Riau Island.<sup>20</sup> These unions refer to Article 45 of the Law, which states that the local governor should determine the minimum wage in the zones, but then includes a section that in setting the minimum wage, the governor must consider at least three conditions: (1) minimum wage as a 'safety net'; (2) the capacities of small and medium enterprises; and (3) decent living needs. Studies and reports about the impact of Special Economic Zones Law on workers have shown that they have no significant influence on reducing unemployment (as was officially promoted during the formulation of the law), and that they have the potential to reduce workers' rights within the zones.<sup>21</sup> However, since 2009, reports have shown no negative impacts of the Special Economic Zones Law on wages; suggesting that in practice, the law might not be effective, as the special economic zones are generally required to follow the general minimum wage setting.

In summary, there are at least four different sources of the criteria for setting minimum wages; as described in table 5.1 below. Each complements the other in different ways. The Manpower Law provides general provisions for the minimum wage and its link with decent living needs (KHL); the Minister of Manpower Regulation No. 1/Men/1999 gives the basic implementing rules about minimum wages; the Minister of Manpower Regulation and Transmigration No. 17/Men/VIII/2005 lists the essential components of KHL to be surveyed for cost (i.e. the basic items and services required for living, including food, housing and power), and the Special Economic Zones Law

19 In 2001, for example, the International Confederation of Free Trade Unions (ICFTU), in its *Annual Survey of Violations of Trade Union Rights 2001*, noted that 'export-processing zones' had transformed their meaning to 'rights-free zones' (ICFTU, 2001). In the case of Sri Lanka, the country's Board of Investment is using an Employees' Council to substitute for a union; and sometimes a union is reorganized into an Employees' Council. In addition, companies are giving workers the impression that if they establish a union, the factory will be closed, which increases negative perceptions of unions.

20 Interview with Obon Tabroni and Jamaludin of the FSPMI, June 2009.

21 In the case of Batam, Riau Island, Burmansyah's research (2009) shows that the total private investment in Batam in 1998 was around US\$ 5,166 million, and that it rose to US\$ 5,351 million in 1999, and to US\$ 6,113 million in 2000. This growing trend in private investment, however, was not followed by the capacity to absorb workforces. In 1998, the workforce absorption was 53.02 percent, but this fell to 41.76 percent in 1999, and fell again to 34.01 percent in 2000.

provides special rules for the implementation of the minimum wage system as it is applied in specific economic zones.

*Table 5.1: Various criteria for minimum wage setting<sup>22</sup>*

| Minister of Manpower Regulation No. 1/Men/1999 on Minimum Wages                                                                                                                | Law No. 13/2003 on Manpower                                           | Minister of Manpower Regulation and Transmigration No. 17/Men/VIII/2005 on the components of KHL calculations [essential items to be costed] and the stages toward the achievement of KHL <sup>23</sup> | Law No. 39/2009 on Special Economic Zones                                                                                           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| 1. Minimum subsistence needs (KHM)<br>2. Consumer price index<br>3. Companies' capacities<br>4. Surrounding regional wages<br>5. Labour market condition<br>6. Economic growth | 1. Decent living needs (KHL)<br>2. Productivity<br>3. Economic growth | 1. Productivity<br>2. Economic growth<br>3. The weakest enterprises                                                                                                                                     | 1. Minimum wage as safety net<br>2. The capacities of small and medium enterprises and cooperatives<br>3. Decent living needs (KHL) |

Based on the series of regulations outlined above, and as frequently emphasized by the government, the primary aim of minimum wage setting is to ensure that all wage earners receive decent living wages. In the words of Manpower Law No. 13/2003 (article 88 subsection 2), the aim of minimum wages is: 'to enable the worker to earn a living that is decent from the viewpoint of humanity.' In practice, however, there are several obvious problems still to resolve in Indonesia. One major issue is that the prescribed minimum wage is only paid in the formal sector. Even in the formal sector, a considerable proportion of small businesses pay less than the minimum wage, either due to ignorance or because they take advantage of the provisions available for exemption – which are generally handed out freely by the government (Isaac and Sitalaksmi, 2008). In the informal sector, the situation is

22 I am grateful to Obon Tabroni for providing input for the table, especially for the information on the Special Economic Zones Law.

23 Minister of Manpower and Transmigration Decree No. 13/2012, with revision of the number of components of the workers' needs and their prices to be surveyed in the market, later replaced this.

even worse; as the minimum wage is effectively excluded from application – and the informal sector includes around 70 percent of the workforce (Bird & Suryahadi, 2002, Basri, 2008). The few minimum wages that have been set for the informal sector are very low, and their effectiveness is therefore considered insignificant.<sup>24</sup> According to Saget (2006), around 30 percent of full-time workers and 50 percent of full-time casual workers in Indonesia earn less than the minimum wage. Attempts by unions to secure the minimum wage through collective bargaining are often rejected, and such rejections often include threats of dismissal of workers, or even plant closure (Isaac and Sitalaksmi, 2008). Thus, as noted by Dhanani et al. (2009: 149), ‘minimum wages and other imposed labour standards turned out to have limited impact, due largely to low compliance.’

This situation has been exacerbated by the weak bargaining position of unions, as a result of low levels of unionization, the dominance of legacy unions, fragmentation of new alternative unions, the lack of strong central organizations and other factors outlined in Chapter 4. In general, unions do consider the minimum wage rate to be too low, and have called for it to be at least equal to ‘decent living needs’ (*kebutuhan hidup layak* – KHL) – as stated by the Manpower Law (article 89). Many unions say that without this change, the law is meaningless. Other unions want to change the minimum wage setting system entirely, pointing out that it is ‘out of date’, as it is based on items for calculation that are no longer relevant to workers’ actual needs today. In either case, the unions appear at present to lack of power to push effectively for such changes.

However, recent observations – particularly in conjunction with the development of regional alliances since regional autonomy – suggest that unions may be starting to exert their influence more strongly, and may play a more effective role in defending their members’ rights; in particular with respect to better wages. Regional Wage Councils have become a magnet for various unions united in regional alliances; with councils acting as a hub within which the unions’ legal and political concerns and strategies can be aired. Within the Wage Councils, unions can present their positions against employers and government, and work to support their interests and achieve

---

24 In its *Global Wage Report* (2010), the ILO notes that in several countries, including Indonesia, the proportion of people on low pay (i.e., those who earn less than two-thirds of median wages) has increased to more than two-thirds since the mid-1990s. This has contributed directly to the rising of wage inequality, characterised by the ‘rapidly increasing wages at the top and stagnating wages at the median and bottom of the distribution.’ (ILO 2010: 31). In this situation, the ILO (2010: 70-80) concludes: ‘In these and other countries with high or growing rates of low pay, there is a risk that a large number of people will feel left behind. This, in turn, may lead to increased social tensions, particularly if certain groups of people consider that they have paid a high price during the crisis while the benefits of the earlier expansionary period – and perhaps future recovery – have been unevenly shared.’

their aims. The dynamics within and surrounding the Wage Councils represent the very essence of minimum wage policies in practice, under the existing labour law in Indonesia. I will discuss this further in the second part of the chapter.

### 3 MINIMUM WAGE SETTING

Minimum wage setting in Indonesia has been institutionalized in the form of the Wage Councils, which exist at both the national and district levels. The National Wage Council, based in Jakarta, does not play a major role in wage setting, but instead focuses mainly on policy monitoring. It is in the Wage Councils at the district level, in cities and regencies that the real wage-setting work is done; in particular by undertaking wage surveys which form the basis for minimum wage setting for the coming year. According to recent data, as of January 2009 Indonesia has 497 cities and districts, in 33 provinces (Department of Internal Affairs Basic Data, 2010<sup>25</sup>); but not all districts have minimum wages. In those that do not, the Governor sets a proxy 'minimum wage' at the provincial level.<sup>26</sup> According to recent Ministry of Manpower data, the 33 provinces have 33 different provincial-level minimum wages; but there is no information available about the exact number of regional minimum wages in place at the district level.

#### 3.1 Wage councils

The Wage Councils are tripartite institutions made up of (1) representatives from government, and academic/experts; (2) employers' organizations; and (3) the trade unions, with a ratio of 2:1:1 respectively. Minister of Manpower and Transmigration Regulation No. 3/Men/I/2005 outlines the requirements for the establishment, operation and membership of the National Wage Council. The National Wage Council has 23 constituent members, including ten government representatives, five trade union representatives, five employer representatives, and three academics and economic experts. The ten government representatives are: three from the Department of Manpower and Transmigration, and one representative each from the Coordinating Minister of Economy, the National Development Planning Agency, the Central Bureau of Statistics, the Department of Industry, the Department of Trade, the Department of Agriculture, and the Department of Energy and Mineral Resources.

25 Accessed at <http://www.depdagri.go.id/basis-data/2010/01/28/daftar-provinsi> (November 2010).

26 One example is South Sulawesi, which applies provincial-level minimum wages to all of its districts.

The employers' on the National Wage Council are represented by Apindo. Various registered national confederations and federations, whose proportional representation on the council is based on the relative size of their membership, represent the trade unions. The Director General for Industrial Relations Development of the Ministry of Manpower and Transmigration heads the National Wage Council; he or she is also counted as a Council member. The Council's deputies are representatives from the Director of Wages, Social Security and Welfare of the Department of Manpower and Transmigration; and representatives from the employers' organizations and trade unions. The main task of the National and Regional Wage Councils is to provide advice to the government, at the national and regional level respectively, regarding minimum wage setting.

As noted above, the National Wage Council works primarily on general policy monitoring, and the Regional Wage Councils, in cities and regencies, bear the responsibility for conducting the wage surveys, which form the basis for data on which the regional government set their minimum wages for the coming year. However, the Regional Wage Councils are currently missing key regulations to ensure that they are standardized. For example, there are no national-level regulations that specify which parts of a regional government should be included as members in the Regional Wage Council. Regional government representatives come from a variety of offices within regional government, dealing with labour, the economy, and social issues; and the Head of the Regional Manpower and Transmigration office is *ex officio* the chairperson of Regional Wage Councils (also doubling as a member). Another concern is that the existing national-level regulations do not clearly define how the Regional Wage Councils should operate. In the absence of such standard regulations, the Councils' operation tends to be based on particular *tata tertib* (rules of conduct) formulated and agreed by the members of each individual Regional Wage Council at the start of council sessions every year (council sessions normally start in early August and end in early December).

Once a governor decides the minimum wage for the districts in his or her province, this minimum wage becomes a rule. Article 90 (1) of the Manpower Law No. 13/2003, in conjunction with articles 13 subsections (1) and (2) of the Minister of Manpower Regulation No. 1/Men/1999, prohibits employers from paying wages lower than the minimum wages, including for those workers under probation. Violations of these provisions, based on Article 185 of the Manpower Law No. 13/2003, may be punished by a minimum of one year and a maximum of four years in jail, and/or a fine of a minimum

of Rp 100 million and a maximum of Rp 400 million.<sup>27</sup> However, employers who are 'unable' to pay minimum wages may be allowed to postpone payment at the official minimum-wage level.<sup>28</sup> Applications for such postponement (including the reasons why the employer found him- or herself unable to pay the minimum rate; details of how the employer is overcoming this situation; the proposed alternative rate to be paid; and for what duration) must be submitted at least ten days before payment of wages is due. The application should be supported by the original written agreement between the employer and the trade unions, as registered at the Regional Manpower Office; or, if there are no unions in the company, the agreement of the majority (>50 percent) – of the workers eligible for minimum wages, as well as the company's financial report for the last two years.<sup>29</sup> Following the submission of such an application for postponement of minimum-wage payments, the governor should give his or her decision within one month; although, if the one-month period expires and the governor has not communicated the decision, then the application is automatically considered to have been 'accepted'. During the one-month period, the employer should continue to

27 There have been efforts by unions to bring employers who violate such provisions to prosecution, but these efforts almost always fail. The first-ever case of a successful prosecution for such violations occurred in Surabaya in 2013, with a guilty verdict reached against Mrs Tjioe Christina Chandra, owner of the company Terang Suara Ltd., Surabaya, East Java province. Chandra was accused of not paying her 53 employees the minimum wage (the payment they received was Rp 800,000 rather than the minimum wage of Rp 948,500). She was originally acquitted by the Surabaya District Court in 2011, but the decision was overruled by the Supreme Court in 2012 (Decision No. 687 K/Pid/2012), and she was sentenced to jail for one year with a fine of Rp 400 million (*Lensa Indonesia*, 17 September 2013). The case attracted attention because Chandra was arrested shortly after she completed the review hearing of her case in the Surabaya District Court, on 17 September 2013. Member of Parliament, Rieke Diah Pitaloka had visited the Public Prosecutor a day before, to urge him to execute the Supreme Court ruling (*Detik.com*, 17 September 2013). According to Pitaloka, the case could be a milestone in efforts to dismantle the existing impunity with which some employers operate in Indonesia, and dismantle the existing repressive and discriminatory laws against labour: 'The verdict is expected to give a deterrent effect against other entrepreneurs who are still doing a lot of violations.' (*Detik.com*, 19 September 2013). The execution of the case represented a long struggle for the union involved, FSPMI. FSPMI organised the workers who were the victims of the underpayment, and also campaigned strongly during the case, including lobbying the prosecutors, the Surabaya Court and even the Supreme Court – reminding all parties about a similar case in Pasuruan, East Java, involving a Japanese subsidiary, King Jim Indonesia Ltd., whose general manager was jailed because he dismissed union leaders who were merely carrying out their functions (see Tjandra 2011, also Chapter 6 of this study).

28 Based on Article 90 (2) of the Manpower Law No. 13/2003. The explanatory note of the article states: 'The postponement of the payment of minimum wages by an enterprise that is financially not able to pay minimum wages is intended to release the enterprise from having to pay minimum wages for a certain period of time. If the postponement comes to an end, the enterprise is under an obligation to pay minimum wages that are applicable at the time but is not obliged to make up the difference between the wages it actually paid and the applicable minimum wages during the period of time of the postponement.'

29 See Minister of Manpower Decree No. 231/Men/2003.

pay wages as normally received by the workers, and the maximum postponement should not exceed 12 months.

### 3.2 Regional minimum wage setting

The first step in the process of determining the minimum wage for districts is the selection of the representatives to sit on the Regional Wage Council; from the nominations put forward by the employers' organizations and trade unions.<sup>30</sup> The employers' organization representatives are always from Apindo, as this is the only employers' organization registered to deal with labour relations issues; while the unions' representatives are selected so as to achieve a proportional representation by union size, according to the membership verification result in the regions. When the selection is finished, the candidates are appointed, either by the governor (for membership of provincial wage councils) or the mayor/regent (for membership of district wage councils).<sup>31</sup> As noted above, at the first meeting for the year each Wage Council determines its 'tata tertib' (rules of conduct), and agrees on key issues such as: the KHL components to be cost-surveyed (the items and services essential for living); the number of traditional markets targeted; the number of surveys to be conducted; the time-table of the survey; and the membership of the survey teams. In the absence of specific national-level regulations regarding the details of 'tata tertib', the rules are decided based on consensus among the members of each of the Wage Councils. In many cases, this means that the 'tata tertib' is merely a reflection of the existing power balance within the Wage Councils.

After the rules of conduct are established, the council conducts the market survey to obtain the required KHL (decent living needs) figures.<sup>32</sup> The surveys are normally conducted in groups, divided proportionately between the Wage Councils' members who do the data collection themselves, and conducted at traditional markets near where workers live.<sup>33</sup> The aim is to

30 See Minister of Manpower Regulation No. 6/Men/IV/2005, in conjunction with Director General of Industrial Relations Decree No. 12/DPHI/IV/2005, concerning membership verification within the trade unions.

31 See President Decree No. 107/2004 on Minimum Wages.

32 Minister of Manpower and Transmigration Regulation No. 17/MEN/VIII/2005 on the components of calculation and the stages toward the achievement of KHL

33 The decision to choose traditional markets as survey locations has been criticised as outdated and misleading by some labour unions, as, they argue, most workers now shop predominantly at retailers; either small retailers (many of which are located nearby workers' housing), or more often big retailers such as Carrefour – at which prices are normally significantly higher than at traditional markets. Trade union representatives point out that to reflect these changes in shopping behavior and ensure accuracy of data, surveys would need to be conducted at these retailers. Despite these arguments, to date the unions have failed to have the new approach included in the 'tata tertib'; with government and employers representatives usually rejecting the proposal (FGD with DKI Labour Forum in August 2010).

obtain the actual costs of goods that workers consume daily. The number of surveys to be conducted depends on the agreement reached within the Wage Council; usually surveys are conducted at least three times per year, at the same location each time, with the aim of obtaining the comparisons needed to calculate the KHL. Following completion of the surveys, the Wage Council members hold meetings to discuss the results, including clarification on inconsistencies, classification of the survey results, and so on. Meetings are then held to discuss and decide on the district minimum wage to be recommended for the year.<sup>34</sup> This process involves political negotiations, where unions and employers, as well as the government, try to influence the results. In some cases unions also use 'mass pressure' to influence the process, with two aims: to monitor their representatives within the Wage Councils; and to directly influence the nominal rate of KHL for the year.<sup>35</sup>

Once the KHL figure for the year is agreed, the Wage Council then submits this proposed figure as a recommendation to the head of the district.<sup>36</sup> The heads of the districts send their recommendations to the provincial governor for a final ruling. Generally, the governor will accept the recommendation without reservation. In some cases, union leaders consider the governor's influence to be more important than the district head's; as in the case of Bekasi, in which the Regional Wage Council in Bekasi was still determining its KHL figures when some unions' leaders traveled to Bandung, in an attempt to influence the West Java Governor.<sup>37</sup> In other cases, governors are required to consider many issues before accepting their district heads' recommendations, including any employers' objections which have been submitted through lobbying – which often takes place at this level rather than at the lower district level. According to one union leader, this is a deliberate strategy by employers, who are aware that regional unions who are active in pressuring the Wage Councils at the regional level do not have the financial or human resources to travel to plead their case at the provincial level.<sup>38</sup> Once the new minimum wage has been decided, the Regional Wage Councils are often involved in efforts to ensure the community accepts the decision, especially in cases where the decision has been marked by controversies.

34 See Minister of Manpower Regulation No. 1/Men/1999 on minimum wage setting.

35 Union leaders from various regions confirm this; most notably those from Jakarta and Bekasi, which in the last few years have launched a series of major demonstrations to influence the minimum wage setting in their Wage Councils, exerting pressure from outside - in addition to the representatives from their unions who are already there. We shall return to this later.

36 See Minister of Manpower Decree No. 226/Men/2000.

37 Personal communication with Obon Tabroni of FSPMI union, Bekasi, in August 2010.

38 Personal communication with Abdullah of the KSPSI union, Bekasi, in August 2010.

Table 5.2 below summarizes the process of minimum wage setting at the district level.<sup>39</sup>

Table 5.2: Minimum wage setting processes in cities/regencies, 2010

| No. | Steps                                                                                                   | References                                                                                                                                                                                             | Notes                                                                                                                                                                                                                                                        |
|-----|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | Selection of prospective representatives nominated by the employers' organization and the trade unions. | Minister of Manpower Regulation No. 6/Men/IV/2005, in conjunction with Director General of Industrial Relations Decree No. 12/DPHI/IV/2005 concerning the membership verification of the trade unions. | The employers' organization representatives are always from the Apindo (Indonesian Employers' Association); the unions' representatives are proportionally from various unions, dependent on the membership verification data in the regions.                |
| 2   | Appointment of the members of Regional Wage Councils by the heads of cities/regencies.                  | President Decree No. 107/2004 on Minimum Wages.                                                                                                                                                        | By the governor (for provincial wage councils) and by mayors/regencies (for district wage councils).                                                                                                                                                         |
| 3   | Formulation of 'tata tertib' (rules of conduct) by the Wage Councils members.                           | Consensus.                                                                                                                                                                                             | To agree on issues such as: the KHL components be cost-surveyed (i.e. items and services essential for living); number of markets targeted; number of surveys conducted; timetable of the survey, etc.                                                       |
| 4   | Implementation of market survey to get the KHL (decent living needs) figure.                            | Minister of Manpower and Transmigration Regulation No. 17/MEN/VIII/2005 on the components of calculation [essential items and services to be costed] and the stages toward the achievement of KHL.     | The surveys are normally conducted in groups, divided proportionately between the Wage Councils' members who do the data collection themselves at traditional markets nearby workers live. The aim is to get the actual costs of goods that workers consume. |
| 5   | Meetings to discuss and calculate KHL for the year.                                                     | The results of market surveys.                                                                                                                                                                         | This includes classification of survey results, clarification on inconsistencies, etc.                                                                                                                                                                       |

<sup>39</sup> In Jakarta, Indonesia's capital, there are no district Wage Councils and thus no district-level minimum wages; all minimum wage setting is conducted by the provincial Wage Council. The steps explained are, however similar; just at a different level.

|   |                                                                                                           |                                                                          |                                                                                                                                                                                                                                          |
|---|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6 | Meetings to discuss and decide on the figure for the district minimum wage to be recommended for the year | Minister of Manpower Regulation No. 1/ Men/1999 on minimum wage setting. | This includes political negotiations in which the unions and employers, as well as the government, try to influence the results. In some cases unions also use 'mass pressure' to influence the process.                                 |
| 7 | Submission of recommendation agreed at the Wage Councils on the minimum wages figure in the district.     | Minister of Manpower Decree No. 226/ Men/2000.                           | The recommendation is submitted to the head of the district, who sends it to the provincial governor to be decided.                                                                                                                      |
| 8 | Waiting for the decision of the governor on the new minimum wages for the coming year.                    | Minister of Manpower and Transmigration Decree No. 226/ Men/2000.        | Generally the governor will accept the recommendation without reservation. In some cases the Regional Wage Councils are also involved in the socialization (efforts to encourage community acceptance) of the new minimum wage decision. |

From the discussion above, we can see that beside the technical mechanisms of wage setting, such as price surveys, the minimum wage represents a set of political considerations by the district head, who provides a recommendation to the governor, who will then decide the new minimum wage. In providing their recommendations, they often tend to put political considerations ahead of the technical process and data from the Wage Councils, such as the price survey data. Despite this, the Wage Councils have become the main sites of political struggle and contest among different interest groups: employers, unions, and the government. The discussions in the second part of the this chapter, and the two case studies below about minimum wage setting processes in Sukabumi, West Java and Jakarta will provide more evidence to support this observation.

#### 4 WAGE COUNCILS AND THE WORKERS' STRUGGLE FOR BETTER WAGES

During the authoritarian New Order era, Wage Councils, although tasked with conducting market surveys based on workers' needs and providing recommendations to the government regarding regional minimum wages, were in practice used as a tool for the government to restrain industrial reforms, so that economic development could proceed on the government's terms (see Chapter 2 of this dissertation). The New Order-sanctioned union, SPSP, played a role as the government's 'rubber stamp' – being the only union represented on the Wage Council (see Chapter 3). After the 1998

reforms however, other unions have been able to join, engage with and influence the Wage Councils at the national and particularly the regional level, bringing different dynamics to them.

Several regional unions' alliances have been very active in recent years advocating for better wages through the Wage Councils.<sup>40</sup> Minimum wage setting faces five major challenges that trade unions are working to address. The first challenge is that the government, as the institution primarily responsible for the welfare of workers, still tends to view minimum wages as a formality, rather than as a tool to extend social welfare to the most vulnerable workers. From the unions' perspective, the government appears to be ambivalent on the issue of minimum wages: although the government is keen to retain control over the setting of minimum wages (and thus control over labour), it is also reluctant to place wages fully in the hands of collective bargaining – which would require clear protection and facilitation for the development of stronger trade unions as important actors in the collective bargaining process. The second challenge still facing minimum wage setting is the urgent need to reform the representation system in the Wage Councils, as many union representatives on the councils are considered, by the unions, to be either 'too old' (out of touch or ineffective) or 'too close' to employers and government, with the risk of perceived or real corruption. A third, related challenge is the urgent need to equip the unions' representatives on the Wage Councils with sufficient knowledge about the law and the technical details of minimum wage setting, to enable them to compete effectively with the other parties within the Wage Councils. In addition, the methods associated with designing, implementing and analysing the KHL (decent living needs) rate surveys, and calculating appropriate annual rates, are important skills for union members to master, to enable them to monitor and, if necessary, argue persuasively for changes to the process.

The fourth challenge facing minimum wage setting is that unions are not currently effective at lobbying and negotiating on wage issues, and need to improve their methods, including developing strategies that combine active lobbying and negotiation efforts with effective mass actions and workers mobilization. The final challenge is that although the minimum wage system is important, there is a growing realisation among union leaders that minimum wages should be treated as a springboard from which to develop a new, better wage system, to be determined by collective bargaining between unions and employers. Through advocating for minimum wages, unions want to gradually develop their bargaining position, in order to negotiate with employers for wages above the existing minimum wages, based on employers' and/or industries' financial capabilities. Consideration of these five major challenges facing trade unions in relation to minimum wage set-

---

40 Focus group discussion with various regional unions alliances, 27 December 2010.

ting is particularly useful, when examining how unions have struggled to defend the rights of workers for better wages through minimum wage setting in the regions, where the Wage Councils are the main arena.

#### 4.1 Union involvement: influencing from within and without

Union representation on Wage Councils is usually determined by the quota dependent on the number of members in each union. As an example, in one case a single union member in the Wage Council represented a union with 15,000 members; therefore unions whose membership reached 40,000 would be represented by two people. The same mechanism applies to determine the union representation in the tripartite cooperation institutions, as required by Law No. 13/2003 on Manpower, both at the national and regional level. One exception is found in the Jakarta Special Capital Region, which instead applies 'the largest seven' system, in which the seven unions with the largest memberships in Jakarta are permitted to have one representative each. This means that a union with 70,000 members, and a union with only 10,000 members, will each get the same number of reserved seats (one), and equal voting power in the Wage Council. According to one SPN union leader in Jakarta, this system may be problematic, as employers and government can potentially split the union representatives by coopting the largest unions' representatives: 'With such a representation system, it is easier for the government and Apindo to condition the Wage Council as desired by them, by just holding one to three members from the biggest three unions.'<sup>41</sup> On the other hand, as observed by one FSPMI union leader in Jakarta, such a system can also make union representation more equitable, and thus give more control to the unions' representatives on the Wage Council.<sup>42</sup> As the union leader explained, 'The main problem with the Jakarta Wage Council is that it is dominated by mostly old unions' activists from particular unions. They have been there for too long, and thus have built inappropriate closeness with both the government officials and the employers' representatives. Therefore, the first thing unions must do is replace them with new and fresh union representatives. This can only be done if there are opportunities for involvement of other unions in the Wage Council.' Both the SPN and FSPMI, along with several other unions in Jakarta, formed the *Forum Buruh DKI* (Jakarta Labour Forum) to synergize the unions' efforts to monitor the performance of the Jakarta Wage Council. We shall return to this later.

In some cases, small unions without a large membership can also become members of the Wage Council, by forming a coalition with other small unions. In one case in Surabaya, the SBK (*Serikat Buruh Kerakyatan* – Popular Labour Union), a small independent union in Surabaya city affiliated with the left wing national union KASBI, became a member of the Surabaya Wage

41 Interview with Ramidi of SPN Jakarta, 27 December 2010.

42 Interview with Joko Wahyudi of FSPMI Jakarta, 27 December 2010.

Council through a coalition with several other small unions in the region. This coalition was achieved through an agreement that these small unions would share the positions they received when they had the chance to sit on any tripartite institution in the Surabaya region, not only the Wage Council. Thus, while a SBK representative became a member of the Wage Council, a member of one of the other unions in the coalition became the union representative on the regional tripartite cooperation institution.<sup>43</sup> According to Jamaludin, an SBK leader, his union deliberately chose to join the Wage Council instead of the tripartite cooperation institution because in their view, the former was more strategic than the regional tripartite institution. As he explained, 'The Wage Council is really related to the workers' main issue, that is, minimum wages; whereas the tripartite cooperation institution is merely ceremonial, and its activities are often not directly related to workers' interests.' He also added that the tripartite institution was preferred by some of the other union leaders in the coalition, predominantly the old activists, who saw it as 'more prestigious' as 'they could sit at the same table with the government and employers representatives'. 'For us it is not the prestige we're looking for, but whether we can actually use the available institutions for the workers' benefit. And we think the Wage Council is more useful for now.' Jamaludin argued that such a strategy was beneficial, as many of their activities there could be covered by the media, and it thus became a KASBI strategy to widen their influence in the East Java region.<sup>44</sup>

In another case in Malang, the SPBI, another KASBI affiliate, used a strategy of combining struggles from within and from outside the system, including by joining the Wage Council in 2005 to influence other union members on

43 This is an institution stipulated under Article 107 of Law No. 13/2003 on Manpower. Its stated task is to 'provide considerations, recommendations and opinions to the government and other parties involved in policy making and problem solving concerning labour issues/problems.'

44 Interview with Jamaludin, Surabaya, June 2009. It is interesting to note that in addition to being the SBK official, Jamaludin was previously already active in the FBS (*Forum Buruh Surabaya* – Surabaya Labour Forum), a non-union workers' group founded by Jamaludin and his co-workers at the Kentucky Fried Chicken outlet in central Surabaya. This group's activities in Surabaya, and in East Java in general, were quite remarkable – as the group developed into a political power in Surabaya by becoming a successful advocacy organization for labour issues in the regions. As argued by Ford and Tjandra (2009), regional autonomy in Indonesia has created increasing media interest in local issues, including labour; thereby creating opportunities for groups like FBS – as well as opportunities for individuals like Jamaludin, who emerged as a worker activist with the instinct and skills to be a labour politician, and who used these skills to promote the labour movement cause. Jamaludin took various strategic public relations positions related to the organization of labour, while maintaining positive relations with the press by providing regular updates on labour issues. Through these efforts, Jamaludin was offered opportunities to run as legislative candidate for several political parties, and he became an important figure in the development of the trade union movement in the region. In 2009, he was recruited to work as an expert staff member for a Member of Parliament in the PDI Perjuangan party in the National Parliament, and moved to Jakarta.

the council.<sup>45</sup> According to one SPBI leader, the strategy was useful because the union could obtain direct access to information concerning the process of minimum wage setting in the region, which is not normally publicly available. 'Even if we failed to persuade others to fight for raising the minimum wages, we would let other unions that are not Wage Council members know the problems with the Wage Council, by disclosing anything from the meetings. So the pressures would come from within and from outside the Wage Council,' he explained. This strategy was apparently quite effective, as in October 2005, the Regent of Malang proposed a minimum wage rate for Malang district to the East Java Governor which was even higher than that proposed by Surabaya, forcing the East Java Governor to reduce the rate of the proposal from Malang at his discretion on December 8, 2005.<sup>46</sup> As the SPBI leader noted, 'We were not successful at raising the wages then, but we nonetheless showed that there was a possibility for independent unions to influence from within the Wage Council system.' Similar stories can be found in other districts around industrial areas, in particularly Java, Sumatera, and Sulawesi, where unions from a variety of backgrounds have attempted to use the opportunity of Wage Council membership and influence the councils from within and without.

#### 4.2 Union strategies: targeting the KHL, pressuring the government

As noted earlier, the main task of the Wage Council is to conduct market surveys to help determine the KHL (decent living needs) rate.<sup>47</sup> The law states that the KHL rate should be the basis on which the Wage Council should determine the minimum wage rate, which is then submitted by the councils to the heads of districts, who then recommend this rate to the provincial Governor for final confirmation. Thus, according to many union leaders, the processes of conducting the market surveys, and the determination of KHL within the Wage Council, are vitally important processes which relate directly to the minimum wage that will be set by the Governor. This is the reason that many regional union alliances identify the KHL as the primary target and focus in their struggle to influence the Wage Councils to achieve fair wages. Their request is simple yet strategic: minimum wages should be equal to the (appropriately determined) KHL. This is already required by law, which gives the unions a strong position from which to present their case, improving the likelihood that the request will be successful. In other

45 Interview with Andi Irfan, May 24, 2007.

46 In East Java there was an unwritten rule that the minimum wage in cities/districts in the so-called 'ring one' regions (the districts surrounding Surabaya, the provincial capital), might not exceed the minimum wage in Surabaya as the largest city. Such an act by the Governor was unprecedented, as the Governor would normally accept any minimum wage rates recommended by the Regents/Mayors.

47 Article 1(1) of Minister of Manpower and Transmigration Regulation No. 17/MEN/VIII/2005 on the components of calculation and the stages toward the achievement of KHL.

words, by simply calling for legal enforcement of minimum wages, the unions are managing to open more space for negotiations on wages within the Wage Councils.

Apart from considering the KHL, the process of minimum wage setting is also required to take into account 'productivity' and 'economic development'.<sup>48</sup> In practice, however, as explained by one union leader in Jakarta, 'the dominant tendency within the Wage Council is to refer predominantly to the inflation rates, consumer price index, and similar figures. In other words, data related to economic considerations, rather than the real workers' needs, as the minimum wage is supposed to be all about.' Observations from several regional Wage Councils confirm that council members – from all three membership groups – generally do not see the KHL as important. The employers' and government's representatives seem to see the KHL as merely a formality, and focus mainly on the actual minimum wage rate, by simply considering the relative increase from the previous year's minimum wage rate, rather than heeding the price survey results. Interestingly, most union representatives appear to do likewise; supporting the previously-mentioned union concerns that union representatives on the councils tend to follow the process blindly, without criticism. Interviews with council members reveal how members, particularly the employers' representatives, tend to ignore the market surveys processes partly to avoid visiting the 'muddy and dirty' traditional markets to undertake the survey; or because they are 'too lazy' to follow the detailed steps required to conduct the market surveys.<sup>49</sup>

According to one union representative on the Jakarta Wage Council, the disinterest in the KHL by council representatives from employers' groups and government is actually advantageous for the unions; as it offers the opportunity for the unions to conduct more accurate surveys, which would greatly increase the fairness of the KHL calculations.<sup>50</sup> One explanation that has been offered to account for council members' disinterest in the KHL surveys is that they are confident that the Wage Council would be unlikely to set a KHL that was 'too high' (from the employers' perspective), based on the generally 'harmonious' environment which exists within Wage Councils. This presumption may account for the shock felt by employers when the *Forum Buruh DKI*, in close strategic collaboration with their representatives in the Jakarta Wage Council, managed to obtain a high KHL rate for Jakarta

---

48 Article 88 (4) of Law No. 13/2003 on Manpower.

49 Interview with Rusmiatun of the FSPMI union, member of the Jakarta Wage Council in August 2010. She also explained that she and her union representatives sometimes encouraged the Wage Council members from the employers' group, who were usually quite old, to wander around the markets before the survey. This resulted in these representatives tiring, and appearing to be even more disinterested in following the survey properly.

50 Interview with Joko Wahyudi of the FSPMI Jakarta branch in August 2010.

in 2010 (the basis for setting the minimum wage in 2011). They achieved this by conducting careful and detailed market surveys, combined with close monitoring of Wage Council meetings and holding a series of demonstration and a workers' strike on 25 November 2010 in Cakung Bonded Zone, North Jakarta; the first major strike focused specially on the minimum wage issue since the 1998 reforms.

The case of *Forum Buruh DKI* in Jakarta provides an example of how unions have managed to combine both legal and political strategies, by targeting the KHL as well as conducting mass actions to pressure the Wage Council and the provincial government; resulting in higher than expected minimum wage rates in 2011. Similar strategies were repeated in Jakarta in 2012, in an attempt to improve the minimum wage for 2013. This time, the strategies were intertwined with the consolidation of the trade union movement at the national level, as well as the successful national strike on 3 October 2012 and the changing political landscape following the election of reformed politicians as the new Governor and Vice Governor of Jakarta. We shall return to this in the next subsection.

## 5 THE CASE OF SUKABUMI AND THE KBS

One case study of the political struggle of unions for better wages for their members, and for workers in general, occurred in Sukabumi and involved particularly the efforts of *Koalisi Buruh Sukabumi* (KBS, Sukabumi Labour Coalition), an alliance of unions in Sukabumi Regency. Despite its lack of resources, this coalition used every opportunity available and was successful at raising the monthly minimum wages from Rp 671,500 in 2010 to Rp 1,201,020 in 2013. This effort, representing an increase of almost double in just three years of campaigning, marked the biggest ever increase in West Java province since the implementation of the minimum wage policy. This case is particularly important, as it shows how even a small group of dedicated union activists can play a significant role in achieving progressive change, simply by using all possible political opportunities effectively to gain better wages for their members.

### 5.1 The background of the case study

Sukabumi has been a well-known region of Indonesia since Dutch colonial times; popular as a leisure and tourist destination with its cool climate and scenery, including mountains, forests and beaches. The climate is well suited to tea plantations and dairy farms, and Sukabumi also boasts one of the largest natural water reserves in Indonesia, making it a strategic destination for bottling water industries. With such a variety of assets, Sukabumi hosts a range of industries, both labour-intensive and capital-intensive; from simple industries run by unskilled workers to those with high-tech pro-

cesses requiring skilled workers. Although Sukabumi Regency had been in place for centuries, in 1955 Sukabumi city was officially formed, developing quickly into a services-oriented city focused on tourism. The regency, the area of which was much bigger than the city (in fact, the vastest district in Java and Bali, with 416,404 hectares and 47 sub-districts), maintained its rural characteristics and industries, which were dominated by plantations, water bottling, and later labour-intensive garment industries which had relocated from other regions.

With such characteristics, the minimum wages in Sukabumi Regency tended to be below those of Sukabumi city, although the two regions had relatively similar conditions regarding their costs of living. The minimum wage rates in Sukabumi were considered far from 'decent', as they were consistently ranked the lowest of all the minimum wages set in West Java province. In 2009-2010, for instance, reports showed that garment workers who had worked for more than 15 years in Sukabumi Regency received wages similar to minimum wages plus *sundulan* (adjustment wages);<sup>51</sup> in total receiving only Rp 1,500,000 per month. Even with the addition of overtime, a worker would receive only around Rp 2,500,000 to Rp 3,000,000 – a very low figure. Similar conditions occurred in Sukabumi's capital-intensive industries as well, including the dairy industry, where workers received relatively higher salaries compared with others in Sukabumi, but still lower than expected, particularly when taking into account their large production output.

## 5.2 The struggle

The vision and strategy of a 'united front', to assist their struggle for better wages, had been discussed among Sukabumi union activists for years. The idea tended to be dismissed by the conservative unions that existed in Sukabumi at the time, characterised by the strong influence of the legacy unions, notably the SPSI.<sup>52</sup> 'They [the legacy unions] have dominated the Wage Council for many years, and the council always recommended low KHL (decent living needs) rates, which would determine the low minimum wages set in the regency,' explained Dadeng Nazarudin,<sup>53</sup> an apparently-dissident member of the SPSI, and also a member of the Sukabumi regency Wage Council. Nazarudin's main concerns were related to a particular minimum wage practice, which involved a bias for some industries over others, with workers in more capital-intensive industries, such as the water-bottling company, receiving much higher salaries than those in labour-intensive industries, due to the much higher than normal variation between sectoral

---

51 *Upah sundulan* are wages that have been adjusted based on the length of work in one company and the percentage of the adjustment is normally based on the percentage of increase of the minimum wages set in the year.

52 For more discussion about legacy unions and the SPSI see Chapter 4 of this dissertation.

53 Interview with Dadang Nazarudin, Sukabumi in December 2009.

minimum wages for the different sectors in the region (see table 5.3: Minimum wages and sectoral minimum wages in Sukabumi Regency – 2010).

To illustrate the magnitude of the differences between minimum wages by sector: there were at least 12 sectoral minimum wages in Sukabumi Regency in 2010. The unions and the employers' representatives from each sector had negotiated these wages. The negotiations were held separately from the negotiations for the general minimum wage; in many cases without equal bargaining positions among the union representatives, due to the particular characteristics of their sectors. Some higher-level sectors, such as tobacco, food and beverages, might get higher sectoral minimum wages; as they were better represented on the Wage Council because their large employee numbers in Sukabumi allowed them to have more than one representative on the Wage Council. Several other sectors had no representatives on the council at all; despite the fact that some of their workforces, such as in the garment industry sector, had been expanding rapidly in recent years. With regard to the garment industry in particular, 'It is predominantly for this sector that we need to reform our minimum wage setting mechanism,' argued Dadeng Nazarudin. Nazarudin himself previously worked for *Dua Tang Group*, a well-known food and beverages company in Indonesia, whose workers' salaries were higher than other sectors.

Table 5.3: Minimum wages and sectoral minimum wages in Sukabumi Regency (2010)

| General minimum wages                                    | Rp 671,500,-   |
|----------------------------------------------------------|----------------|
| <i>Sectoral minimum wages:</i>                           |                |
| 1. Plantation and cattle breeding                        | Rp 672,500,-   |
| 2. Hotel and other business                              | Rp 672,000,-   |
| 3. Textile, Garment, shoes industry, elektronik industry | Rp 675,000,-   |
| 4. Poultry farm                                          | Rp 770,000,-   |
| 5. Mining and digging                                    | Rp 825,000,-   |
| 6. Transport for oil and gas                             | Rp 950,000,-   |
| 7. Machineries and Metal                                 | Rp 780,000,-   |
| 8. Wood                                                  | Rp 672,250,-   |
| 9. Pharmacy and cosmetics                                | Rp 674,500,-   |
| 10. Dairy industry, Supplement/Isotonic and Ice Cream    | Rp 1,015,500,- |
| 11. Bottled water industry ('non-makloon')               | Rp 962,500,-   |
| 12. Bottled water industry ('makloon')                   | Rp 842,500,-   |

As further explained by other KBS activists, the problem of resolving such disparate sectoral minimum wages was complicated by the fact that most workers in Sukabumi Regency were not unionized, and those who were, tended to have no access, in practice, to policy making decisions such as minimum wage setting, due to the ineffectiveness and corruption of union

officials. 'It is common in Sukabumi that union officials are in fact offering to "guarantee" that their members will not demand higher salaries other than minimum wages, with the expectation [in return for this guarantee] of receiving some money from the employers,' said Ade Rukmana, another KBS activist, who worked for the largest water-bottling company in the country, *Danone-Aqua*, whose main processing factory is in Sukabumi. When asked about the motivations behind his decision to leading the KBS and effect change, Nazarudin explained: 'It may not be in our direct interest to struggle for better wages in Sukabumi Regency, as we are coming from relatively higher level industries, but if we don't do this, who else will?' The KBS was eventually established after a workshop in December 2010; we will return to this later.

Nazarudin also argued that Sukabumi had become one of the most popular destinations for factories relocating from other regions, particularly Tangerang (Banten province), where minimum wages were much higher compared with Sukabumi. The KBS claimed that Sukabumi's wages policies were leading to significant increases in the numbers of lower level manufacturing industries in the region, including garment manufacturing industries moving from Tangerang to Sukabumi; and that these industries' workers were not being protected by those supposed to protect them. 'We could see with our own eyes on the streets that there have been increasing numbers of new factories in the regency, mostly labour-intensive industries. The problem is that their workers receive very low salaries compared to those who work in the city,' said Nazarudin. 'It is not fair, as we who work in the regency with lower wages are actually the ones who are supporting the city, as we always shop in the city. What we want is simply a more balanced situation.'

Table 5.4: Minimum wage in Sukabumi Regency and Sukabumi city (2009-2013)

| Year | Sukabumi Regency | Sukabumi city  | Difference   |
|------|------------------|----------------|--------------|
| 2009 | Rp 632.500,-     | Rp 770.000,-   | Rp 137.500,- |
| 2010 | Rp 671.500,-     | Rp 850.000,-   | Rp 178.500,- |
| 2011 | Rp 850.000,-     | Rp 860.000,-   | Rp 10.000,-  |
| 2012 | Rp 885.000,-     | Rp 890.000,-   | Rp 5.000,-   |
| 2013 | Rp 1,201,020,-   | Rp 1,050,000,- | Rp 151,020,- |

As explained by KBS activists, their actions to improve the situation began by gathering together all existing unions in Sukabumi Regency, to discuss the issue and obtain a commitment to take action. The first meeting was held on 19-21 December 2009, facilitated by the Trade Union Rights Centre (see Chapter 4 of this dissertation). At the meeting, all participants agreed with the establishment of KBS, to serve as an informal vehicle for unions in Sukabumi Regency to struggle for better wages. KBS activists then approached the regent on 24 April 2010, requesting an official declaration of the KBS's

official acknowledgement as mass organization. Coincidentally, a regional election for the regent was looming in early 2011, and the incumbent Regent, Mr Sukmawijaya, aimed for re-election; which may have influenced his willingness to support the workers' demands. As explained by Nazarudin, with agreement from other activists: 'We have a bargain too, as we do not get any money from the Regent. Our demand was simply that he would give workers better salaries'.<sup>54</sup>

The KBS used this political opportunity effectively, and negotiated for the Regent to sign a 'political contract' with the KBS. This included an agreement to set minimum wages at equal to the KHL from the price survey conducted by the Wage Council. Although this was already required legally, in practice the Regent had always previously recommended minimum wages that were lower. The Regent's new agreement and declaration were high profile events that were covered by some local media, assisting the KBS as it continued its struggle to raise minimum wages. 'We could not simply depend on the Regent's approval; we still had to do so many other actions to realize our demands,' explained Dadeng. Their next actions were to organize a public rally on the occasion of International Labour Day, 4 May 2010, combined with audiences with the Regent, the Head of the Manpower Office of the Regency and members of the regional parliament. Again, the aims of these activities were to raise public and official awareness and focus attention on the issue of fair minimum wages. At the same time, the KBS formed an advocacy team on wages, whose first act was to conduct an alternative, independent and academically rigorous price survey, to challenge the official price survey conducted by Wage Council members. 'Our price survey was methodologically and academically valid, as we worked together with the Labour Law Study Centre at the University of Pasundan in Bandung, the capital of West Java province; and with a research NGO in Bandung as well,' argued Dadeng.<sup>55</sup> 'As an example [of improvements to the survey – author] we conducted the survey four times in the middle of the month, not at the beginning of the month [when prices tend to be at their highest – author] or the end of the month [when prices tended to be lowest – author]'. Dadeng also explained that the traditional markets chosen for surveys were selected because they were known as markets where workers in Sukabumi Regency were actually going to buy goods for their daily needs: Cicurug, Cibadak, Pangleserandan, and Pelabuhan Ratu. These were also markets near to where most industries were located. The survey results were brought to the Regional Parliament on 13 July 2010, with a request to carefully monitor the minimum wage setting process. As explained by Nazarudin, KBS's

54 Focus Group Discussion with KBS activists, 19 December 2009.

55 KBS activists considered the involvement of independent academics to be very important, as it would give objectivity and rigor to the survey they conducted. It was important that the public saw that the survey was objective and accurate, rather than just being perceived as merely workers' demands without a sound basis.

approach to the regional parliament was also an effort to gain support from other political powers, in addition to the support from the Regent.

The KBS's lobbying strategy outlined above was combined with efforts to influence the minimum wage setting through direct involvement with this Wage Council. Dadeng Nazarudin himself was already a member of the Wage Council. He was also Chairman of the SPSI RTMM (tobacco, food and beverages union), Sukabumi branch; the largest sector union in Sukabumi Regency. With his influence, Nazarudin initiated changes in the Wage Council, including opening council positions to people from unions that were not yet members, such as from the garment sector unions. 'So we could have a stronger position when negotiating within the Wage Council,' Nazarudin explained. Nazarudin enabled these new union members to join the council through a series of careful steps. First, he withdrew himself and all other representatives from his union from the Wage Council. This move caused all negotiations within the Wage Council to deadlock, as the Wage Council's rules of conduct included the rule that if a quorum of members was not available, the meeting must be halted. In response, the government approached the union and requested the union to fill the abandoned seats, so that Wage Council negotiations could continue. Nazarudin and the KBS used this opportunity to suggest some changes to the Wage Council, including that the Wage Council should include industry sectors other than those already represented; in particular, they recommended inclusion of representatives from the garment and textile industry. These recommendations were adopted, allowing several new members to join the Wage Council.

The involvement of the KBS in these Wage Council changes was immediately resisted by Apindo and also by some other labour union members of the Wage Council. The Apindo members on the Wage Council refused to sign the results of the surveys which had been conducted with close monitoring by the KBS from both inside and outside the Wage Council. The employers' representatives on the Council also refused to negotiate on the sectoral minimum wages; an activity which usually occurs after the minimum wage is set. The Wage Council negotiations became deadlocked again, with employers insisting that the new minimum wage for 2011 should only be Rp 730,000, (a 7 percent increase from the previous year), while the unions sought for it to be Rp 925,723,- based on the results of the KHL survey. As no agreement could be reached within the Wage Council, the Regent stepped in and recommended a rate of Rp 850.000. This recommendation was put to the Governor of West Java and was set as the new minimum wage for Sukabumi Regency in 2011. This rate, which was only Rp 10,000 lower than the rate for Sukabumi city, represented a wage increase of up to 26.6 percent – the highest rise in the country for that year – and was a long-awaited leap in wages for many workers.

Employers, however, continued to resist the changes, leading to a prolonging of negotiations over sectoral minimum wages. As well, the increase in the nominal minimum wage in Sukabumi Regency resulted in several applications by employers to postpone payment of minimum wages. By some reports (see *Antarasumber.com*, 10 December 2010), 40 companies filed to postpone the implementation of the new minimum wage in their factories – although one Manpower Office official reported that the office actually only received three applications.<sup>56</sup> This indicates that the new minimum wages were largely accepted. This was considered a significant victory for many workers in the region, and in response, the union movement relaxed its efforts during the subsequent year, allowing the minimum wage rate to be increased by only Rp 5,000 (from Rp 880,000 to Rp 885,000) in 2012; which widened the gap between this rate and the minimum wage in Sukabumi city. Nazarudin justified this relaxation of effort in the following way: ‘We decided to slow down a bit of our movement, as all parties should adapt themselves to the new arrangements concerning minimum wages, but we will continue to struggle in 2012 [for the minimum wage in 2013].’

As promised, the KBS did redouble their efforts in 2012. They faced some challenges. Membership of Wage Councils is reviewed annually, and the KBS lost some of their supporters from the previous years’ council, as many of those who had been supported by KBS were not nominated as council representatives by their own unions this year. Dadeng Nazarudin had also left his position as the branch leader of his union, losing his direct influence over the appointments of union representatives to the Wage Council. Nazarudin chose instead to work from the outside. ‘The strategy involved particularly the close monitoring of the surveys conducted by the members of the Wage Council.’ Nazarudin explained. ‘We joined them [Wage Council members] in any surveys conducted, using our own money, and recorded anything relevant found in the survey, particularly the actual value of the KHL components [essential items and services] that were surveyed.’

Based on the 2012 surveys, closely monitored by KBS activists, the Wage Council initially found the new KHL rate to be Rp 1,434,353,-<sup>57</sup> However, the Wage Council soon reduced this figure, recommending instead Rp 1,035,000,-. This new amount was suspiciously similar to that obtained through the surveys undertaken by the Wage Council in Sukabumi city – which had not been independently monitored by anyone. The Sukabumi Regency Wage Council arrived at their new lower figure by reducing the renting room cost component of their calculations, and by deleting the electrical and water cost components entirely. Concerned about these actions, the KBS immediately met with the Regent, who had previously supported the KBS’s requests, and

---

56 Personal communication with Aam Ammar Halim of the Manpower District Office of Sukabumi regent, 10 December 2010.

57 Interview with Dadeng Nazarudin and KBS activists on 27 November 2012.

explained their own findings to him. The Regent reviewed the results again, and initially arrived at a new figure of Rp 1,377,331,-. Soon after, the Regent decided to continue to refer to the Wage Council's revised recommended figure, but to this he added additional figures to account for the components that had been reduced or excluded. He increased the renting room figure to Rp 320,000,- (the Wage Council had reduced this to Rp 220,000,-), and added back in the electrical and water components, to arrive at a new recommended minimum wage rate of Rp 1,201,020,-. This figure was accepted by the Governor of West Java and set as the new minimum wage for Sukabumi Regency for 2013 (*detikfinance.com*, November 2012). The new minimum wage of Sukabumi Regency now exceeded, quite significantly the rate in Sukabumi City (which was Rp 151,020,-), and represented a success for KBS and workers of similar magnitude to the success in 2010.

It is interesting to note that KBS's actions in this case study did not include mass actions, but focused primarily on developing a close relationship with Regent Sukmawijaya. According to some critics, the KBS's reliance on this relationship suggests that despite their success with respect to increasing minimum wage in the region, their real contribution to the development of the labour movement in the region is questionable.<sup>58</sup> Nazarudin's involvement with the KBS, in particular, raised tensions among SPSI leaders in Sukabumi Regency, who accused him of aiming to popularize his own name among workers and use his close relationship with the Regent for his own personal political interests.<sup>59</sup> Nevertheless, the Sukabumi case clearly demonstrates how union activists in Indonesia have been able to use a combination of legal and political actions to achieve fairer wages for their members. The case highlights the capacity for a small group of union activists, operating in a small regional area, to achieve great benefits for their members. The case of Jakarta in the following section will provide a very different set of insights, as it will reveal the dynamics operating in a much larger region, and one which is also much closer to the central government.

## 6 THE CASE OF JAKARTA AND THE NATIONAL GOVERNMENT RESPONSE

The laws and regulations on minimum wage setting stipulate that the authority to set minimum wages is in the hands of provincial governors, whose duty it is to decide the minimum wages in all regencies and cities in

58 Personal communication with Mohamad Popon, SPSI TSK Sukabumi Regency branch official, in August 2011.

59 When Dadeng Nazarudin finished his term as the chairman of the SPSI RTMM branch in 2012, he decided also to quit from the SPSI, and to focus on his work with the KBS. Although the KBS has maintained its activities, more recently Dadeng has joined the GSBI union, and prepared himself to run for regional legislative in 2014 election. He failed in the effort.

their province. In practice however, minimum wages are also a key interest of the national government, especially the economic ministries – in particular the Ministry of Manpower, whose main duties include providing implementing regulations on minimum wages. Thus, although minimum wages are set in the regions, the central government sometimes needs to intervene; especially when extraordinary events occur, as the case of Jakarta described below will show.

The struggles of Jakarta workers and their representative group, (the *Forum Buruh DKI* or Jakarta Labour Forum), occurred against the backdrop of struggles at the national level, through the MPBI (*Majelis Pekerja Buruh Indonesia*, the Council of the Indonesian Labour. These struggles included the MPBI's organization of Indonesia's first ever general strike, on 3 October 2012 under the banner of 'HOSTUM' (*hapuskan outsourcing tolak upah murah*, abolish outsourcing and reject low wages) (see also Chapter 4). The strike attracted around two million workers from at least 14 industrial cities across Indonesia, highlighting the success of national-level efforts. This was the first time in Indonesia that national union confederations had successfully united in a single action for the interests of their members, as well as for workers in general in Indonesia. The national government responded reluctantly to these efforts, but could not deny the urgency of reviewing all minimum wages set in the past few years. There appeared to be an agreement among the relevant national authorities, including the Coordinating Ministry of the Economy, the Ministry of Industry, and the Ministry of Manpower, that a significant increase in wages was needed for formal workers, through the vehicle of minimum wage setting.

Soon after the general strike, the national government announced the release of a new regulation to facilitate wage increases, namely Minister of Manpower and Transmigration Decree No. 13/2012 (back-dated to 10 July 2012). This new regulation kept many aspects of the old system, but revised and added to the list of KHL components (items and services essential for living) required to be considered in the calculations, specifically the components numbered from 46 to 60. The employers responded as expected, by threatening to file a judicial review against the new regulation even before it had been realized. The unions accepted the regulation, albeit with reservations – in particular, they pointed out that despite the increase in survey components, in practice the total value to workers would not improve markedly. In their opinion, many of the newly-added components were not essential to most workers (they cited deodorant as an example); and they were concerned that the value of some other, more essential components had been reduced – for example the fuel component had been changed from kerosene to gas. The price of gas is much lower; yet kerosene is widely relied upon by

Indonesian workers.<sup>60</sup> Nonetheless, the unions recognized that this initiative demonstrated some level of central government effort to appease the labour demands for fairer wages.

On 2 November 2012, by his own initiative, the Minister of Manpower Muhaimin Iskandar brought together the three governors of the most industrialized provinces in Indonesia: the Governor of Jakarta, Joko Widodo; the Governor of Banten, Ratu Atut Chosiyah; and the Governor of West Java, Ahmad Heryawan. Together they agreed on several issues in relation to the setting of minimum wages in their three provinces (*Tribunenews.com*, 2 November 2012). The Minister of Manpower fronted a news conference in his Jakarta office to declare: 'Before the setting [of minimum wage] through the Governors' decrees, we will continue to do the coordination. Today is the first coordination, and we agree to continue to monitor the talks on the Wage Councils.' The Minister also stated that the governors had agreed that apart from the KHL survey, they would also consider other key factors in minimum wage setting, and that the results of these considerations would be coordinated between the governors and factored into their decisions. This strong claim by the Minister was later revealed not to have been taken seriously by the governors, who disregarded it and made their own decisions without coordinating with each other.

In 2013, minimum wages in Jakarta increased significantly, as did those in the surrounding industrial regions including Bekasi, Karawang and Cikarang in West Java, and Tangerang and South Tangerang in Banten. The newly-elected Governor of Jakarta, Joko Widodo, decided that the minimum wage for Jakarta would increase from Rp 1,529,000 to Rp 2,200,000, representing a 43.87 percent increase in just one year (see table 5.6; *Detik-finance.com*, 2 December 2012). Following this move, the Governor of West Java, Ahmad Heryawan, decided on similarly significant increases to minimum wages in Bekasi, Karawang, Cikarang, Depok, Bogor and Sukabumi; in agreement with the recommendations submitted by the Wage Councils in those regions. The Governor of Banten, Ratu Atut, followed suit with a significant increase in minimum wages in Serang, Tangerang and Tangerang Selatan. It is important to note that in all these regions, the union movement was already relatively strong. Similar increases in minimum wages did not occur in other regions, where there was no strong union movement. It is also notable that the Wage Councils in those regions, with active union involvement, had recommended each of these significant increases in minimum wages in 2013 and the Governors were simply abiding by the recommendations that had been discussed and decided within the Wage Councils.

---

60 As kerosene is no longer subsidized by the government, it has become even more expensive than subsidized fuel gas.

In response to the increase in provincial minimum wages in Jakarta, Indonesia's President Susilo Bambang Yudhoyono appeared to criticize Joko Widodo at the National Congress of Apindo (Indonesian Employers Association) on 8 April 2013; commenting that minimum wages should not be exploited for political purposes to the extent that it becomes a populist issue. One day later at the same forum, the Coordinating Minister for the Economy, Hatta Rajasa, made a similar statement. Both argued that the setting of minimum wages should involve a consideration of economic factors but not politics; with the implication that politics had influenced Widodo.

The case of Jakarta's wage struggles is in many ways unique. The trade unions were strongly active in the Wage Council, as well as successfully targeting the KHL. They also organised mass actions to pressure the Jakarta provincial government; including the successful national strike action on 3 October 2012. In addition, it must be acknowledged that the new leadership duo in Jakarta at this time<sup>61</sup> – especially the Vice-Governor Basuki Tjahaja Purnama – played a significant role in the wage increases. The Vice-Governor appeared sympathetic to the workers' calls for more decent wages, especially their request to ensure that minimum wages should not be less than the KHL. Indeed, Jakarta provided a significant breakthrough in minimum wage setting mechanisms, through processes that are interesting to consider. The Vice-Governor personally led the Jakarta Wage Council's final meeting of the year in 2012, instead of the usual chair, the Head of the Department of Labour and *ex officio* Head of the Wage Council. The purpose of this final meeting was to determine the KHL figure that would be recommended to the governor. Under the direct leadership of the Vice-Governor, the Jakarta Wage Council implemented a new regression system to calculate the value of KHL, which became the basis of the new minimum wage.

The new regression system required that the KHL value during the remaining months of the current year (since the last survey; in this case in October 2012) should be taken into account when calculating the new KHL value. Following these calculations, a KHL value of Rp 1,979,789,- was obtained. For the first time ever in Jakarta, and indeed in Indonesia, projections of future 'decent living needs' for the following year were also taken into account when recommending the next year's minimum wages (in this case, projec-

---

61 Joko Widodo and Basuki Tjahaja Purnama represent a new kind of reformist politicians in Indonesia today. Widodo used to be the Mayor of Surakarta in Central Java, he is well-known for his humble and clean reputation so that several international media called him 'Jakarta's Obama' (*BBC News*, 23 January 2013). Purnama, the first Indonesian of Chinese descent to become Vice-Governor in Indonesia ever, was the Regent of Belitung Timur before he became member of parliament for Golkar, well-known because of his motto 'bersih, transparan, profesional' – from the acronym of his own name 'BTP', meaning: 'clean, transparent, professional'. He consistently lives up to this slogan, among others by disclosing his salaries and other benefits as public official to public, an extraordinary act in the current Indonesian political culture.

tions of needs from January to December 2013). With the inclusion of these new considerations, it was determined that the minimum wage would be set at Rp 2,216,000,- or 112 percent of the KHL. When this recommendation was agreed to by the majority of council members, the representatives from the employers' association, Apindo, walked out – even though they had been actively involved in all phases of the price surveys conducted since early 2012. However, the Head of the Provincial Manpower Department decided that Apindo's absence did not invalidate the Wage Council's recommendation, because the council still retained a quorum.

Following this decision, Governor Joko Widodo ruled that the provincial minimum wage for Jakarta in 2013 would be set at Rp 2,200,000; which was a reduction of Rp 16,000 from the KHL recommended by the Wage Council. The employers in Apindo, who considered it to be too high, immediately questioned this figure. Workers, on the other hand, considered the increase of 43.87 percent from the previous year as simply a long awaited and much needed closing of the gap between the minimum wage and the KHL (see table 5.5 and table 5.6), given that minimum wages in Jakarta had always been significantly below the KHL figures.

In response to the new figures, the areas surrounding Jakarta set their minimum wages at roughly equal rates: Rp 2,042,000 in Depok; Rp 2,002,000 in Bekasi and Bogor; Rp 2,200,000 in Tangerang (equal to Jakarta); and Rp 2,202,000 in South Tangerang (slightly higher than Jakarta). The same did not happen, however, in Central Java. In Semarang, the capital of Central Java province, the minimum wage was set at Rp 1,209,000; only slightly more than half the Jakarta minimum wage. Apindo claimed that this situation has led to the departure of 90 companies from Jakarta to Central Java (*Liputan6.com*, 18 March 2013); although unions have questioned this claim.<sup>62</sup> If Central Java is indeed becoming a new hub for industry, from the unions' point of view this opens up a whole new arena of struggle, with the workers of Central Java now in need of help to raise their wages.<sup>63</sup>

Table 5.5: KHL and Minimum Wage in Jakarta (2001-2010)

|                  | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008      | 2009      | 2010      |
|------------------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|
| KHL              | 426,000 | 519,931 | 699,710 | 746,749 | 759,953 | 831,336 | 991,988 | 1,055,276 | 1,314,059 | 1,317,710 |
| UMP              | 426,250 | 591,266 | 631,554 | 671,550 | 771,843 | 819,100 | 900,560 | 972,605   | 1,069,865 | 1,118,009 |
| % UMP<br>thd KHL | 100.06% | 113.72% | 90.26%  | 89.93%  | 101.56% | 98.53%  | 90.78%  | 92.17%    | 81.42%    | 84.84%    |

<sup>62</sup> It was difficult to confirm this claim, as at the time of writing, there was no data available. Reports from union activists based in the Cakung Bonded Zone in North Jakarta, where most of Jakarta's labour intensive companies are located, did not support the claims; the union members stated that in fact no factories were moving from their zone.

<sup>63</sup> Interview with Obon Tabroni, FSPMI union leader, in Bekasi in August 2012.

Table 5.6: *KHL and Minimum Wage in Jakarta (2009-2013)*

|                              | 2009      | 2010      | 2011      | 2012      | 2013      |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| KHL                          | 1,314,059 | 1,317,710 | 1,401,829 | 1,497,838 | 1,979,789 |
| % KHL increase               |           | 0.28%     | 6.38%     | 6.84%     | 32.17%    |
| UMP(Provincial minimum wage) | 1,069,865 | 1,118,009 | 1,290,000 | 1,529,150 | 2,200,000 |
| %UMP increase                |           | 4.50%     | 15.38%    | 18.53%    | 43.87%    |
| %UMPtoKHL                    | 81.42%    | 84.84%    | 92.02%    | 102.09%   | 111.12%   |

As discussed earlier, under Indonesia's regional autonomy regime, the regional governors, on the recommendation of the district heads, set minimum wages. As a result, the minimum wage will differ from district to district, often influenced heavily by location-specific social, economic, political and ideological variables. As an example of this, areas with relatively strong labour movements tend to have higher minimum wages; while areas with weak labour movements tend to have correspondingly lower minimum wages. The minimum wage is often also influenced by local politics. Political maneuverings in the lead up to local elections can result in relatively substantial minimum wage increases, such as the aforementioned increase in Sukabumi in 2011. However, the atmosphere ahead of local elections can also have the opposite effect, as happened in West Java in 2012. The Governor of West Java, despite the absence of any high minimum wage increase in the region, chose to grant a suspension of the minimum wage to hundreds of companies prior to the elections; just one more example of how political the setting of minimum wages can be.

As mentioned at the beginning of this chapter, it is not the intention of the author to entirely reject economic models as a means of analyzing and understanding minimum wage policy. Rather, this chapter aims to highlight the importance of political science research, as an analytical tool to balance the economic approach when looking at wage policy. Understanding the way in which government policy is formed is important for a better understanding of minimum wage issues. Government policy is nothing if not a response to the political dynamics of the various forces that exist in society and between its players. For now, workers have a bit of wind in their sails; at least, the workers in Jakarta and surrounding industrial areas. Change has not, however, arrived in all regions. The central government still has an important role to play in establishing a more equitable balance of wages across the country; and this has yet to happen.

## 7 DISCUSSION

When minimum wage policies were first becoming established – largely in the developed world – at the beginning of the 20th century, the dominant argument among scholars and policy makers was that an appropri-

ate minimum wage would produce strong benefits for society; particularly with regard to efficiency gains. One prominent figure in industrial relations research, Sidney Webb, argued that a minimum wage would have the beneficial effect of increasing overall economic activity by increasing productivity (see Webb, 1912; also Palley, 1998). Webb believed that employers would not want to pay higher wages unless they could be assured that they would achieve greater return for their new cost, and since minimum wages were fixed by law and imposed on all employers, they could also be protected from dishonest and disloyal competitors (Webb, 1912: 975-6). Similarly, workers would have an added incentive to become more productive, so that they would be in a position to command higher wage rates, by stimulating 'the invention and adoption of new processes of manufacture' (Webb, 1912: 982). Only a few efficient industries and workers could profit from the absence of a mandatory wage floor. The idea behind such a consensus was related to the broader theory of the state's social obligations to its people, to provide prosperity through, for example, full employment. Webb believed that all government policies should be directed toward this effort.

Since the 1970s, however, there has been a shift in the policies of many governments, from full-employment policies toward anti-inflationary policies; particularly by pursuing a low-wage strategy. As argued by Thomas Palley (1998), in the case of the United States, the political dominance of business and the intellectual dominance of laissez-faire ideology have meant that the economic policy of the United States' government has consistently favoured business at the expense of labour. Economists have played an important role in this, by convincing the government that the market should be freed from government intervention, and that under the economic model of competitive markets, unemployment is caused in part by high and rigid wages. Under this ideology, since unions and minimum wage policy serve to raise wages, they are both seen as forces that drive up unemployment (Palley, 1998: 19-21). With the domination of the United States in the world's economy, and its political influence on international financial institutions including the International Monetary Fund and the World Bank, such policies and ideologies have also been brought to the many countries that are required to work with the United States through loans and financial assistance (Palley, 2004).<sup>64</sup>

As a striking example of the United States' potential influence on minimum wage policy in other countries, since 2003 the World Bank's private sector wing – the International Finance Corporation (ICF) – has published an annu-

---

64 This was done particularly through the so-called 'Washington Consensus,' consisting of a set of relatively specific economic policy prescriptions which together constituted the 'standard' reform package promoted for crisis-wracked developing countries by institutions based in Washington, D.C., such as the International Monetary Fund (IMF), the World Bank, and the US Treasury Department (see John Williamson, 1989, who coined the term).

al ranking of countries based on their 'ease of doing business' [with the United States]. The IFC also ranks each country for its 'difficulty of hiring,' by measuring: '(i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; and (iii) the ratio of the minimum wage for a trainee or first-time employee to the average value added per worker.' The score is between 1 and 0, with a score of 1 representing the most 'difficult' countries, and a score of 0 representing the most 'easy' countries with which to do business. In the explanation for its methodology, the IFC report says<sup>65</sup>:

[A] score of 1 is assigned if the ratio of the minimum wage to the average value added per worker is 0.75 or more; 0.67 for a ratio of 0.50 or more but less than 0.75; 0.33 for a ratio of 0.25 or more but less than 0.50; and 0 for a ratio of less than 0.25. A score of 0 is also assigned if the minimum wage is set by a collective bargaining agreement that applies to less than half the manufacturing sector or does not apply to firms not party to it, or if the minimum wage is set by law but does not apply to workers who are in their apprentice period. A ratio of 0.251 (and therefore a score of 0.33) is automatically assigned in 4 cases: if there is no minimum wage; if the law provides a regulatory mechanism for the minimum wage that is not enforced in practice; if there is no minimum wage set by law but there is a wage amount that is customarily used as a minimum; or if there is no minimum wage set by law in the private sector but there is one in the public sector.

Under this definition, in the view of the IFC and the World Bank, the less a state is involved with or regulates how wages are set, the better. In fact, the non-existence of a minimum wage, and/or the moderation of the minimum wage and its setting, are considered the 'best' from the IFC's and the World Bank's perspective. The best policy, according to this ranking system, is to leave wage setting entirely to supply and demand and, maybe, to collective bargaining, without any recourse to legislation or other regulatory measures to establish a minimum wage. As noted by Berg and Kucera (2008: 1): 'The belief [of the *Doing Business* publication] is that onerous regulations concerning hiring workers on temporary contracts, paying large amounts of severance on dismissal, restrictive working hours and too high payroll taxes have hampered investment and stalled job growth, causing the poor to suffer more than they already do.' The blame is placed squarely on the rigidity of labour markets, and in particular on the setting of minimum wages by the state rather than the market; and deregulation is seen as an answer. This is typical of the 'neo-liberal' view of macro-economic policy, whereby the focus is primarily on engendering price stability by controlling inflation, while allowing market-driven 'supply-side factors' to determine real wages and employment.

65 See <http://www.doingbusiness.org/methodology/employing-workers> (in September 2013).

It has been argued that such a neo-liberal approach to policy making has had a negative impact on the balance of the global wage share and growth rates during the neo-liberal era of the post-1980s. The ILO's *Global Wage Report 2012-2013* (2012) shows the dramatic decline in the share of wages in GDP in both the developed and developing world, accompanied by lower growth rates at the global level as well as in many individual countries. A simultaneous increase in the profit share by 1% point in the major developed and developing countries has led to a 0.36% decline in global GDP (ILO, 2012). In a report submitted to the International Labour Office, Onaran and Galanis (2012) show the vicious cycle generated by the decades long 'race to the bottom', with the global multiplier effects of a simultaneous decline in the wage share leading to a decline in global growth.<sup>66</sup> According to Onaran and Galanis (2012), the main caveat of this neo-liberal view is to treat wages merely as a cost item, but not its impact on demand. As noted by Onaran (2013) in explaining their research:

We estimate the effect of a change in income distribution on aggregate demand (i.e. on consumption, investment, and net exports) in the G20 countries. Consumption is a function of wage and profit income, and is expected to decrease when the wage share decreases, since the marginal propensity to consume out of capital income is lower than that out of wage income. Investment is estimated as a function of the profit share as well as demand, and a higher profitability is expected to stimulate investment for a given level of aggregate demand. Finally, exports and imports are estimated as functions of relative prices, which in turn are functions of nominal unit labour costs, which are by definition closely related to the wage share. The total effect of the decrease in the wage share on aggregate demand depends on the relative size of the reactions of consumption, investment and net exports. If the total effect is negative, the demand regime is called wage-led; otherwise the regime is profit-led. Mainstream economic policy assumes that economies are always profit-led, whereas in the post-Keynesian models the relationship between the wage share and demand is an empirical matter, and depends on the structural characteristics of the economy.

Mainstream, United States-led economics continue to guide policy towards further wage moderation, along with austerity, as one of the major responses to the Great Recession. This is the 'vicious cycle' generated by the decades-long race to the bottom, whereby the main caveat of this common wisdom is to treat wages merely as a cost item (Onaran, 2013). Nonetheless, the alternative view maintains that, in the real world, there are indeed institutional rigidities, as well as social norms and conventions, which make the labour market different from the market for goods (see Berg and Kucera, 2008). As noted by Dhanani et al. (2009: 1): 'In such an institutional context, a short-run trade-off between inflation and unemployment is the norm rather than the exception. A preoccupation with controlling inflation is thus counterpro-

<sup>66</sup> Onaran and Galanis (2012) analyze the interactions among different economies in the G20, and calculate the global multiplier effects of a simultaneous decline in the wage share in Germany, France, Italy, UK, US, Japan, Turkey, Korea, Canada, Australia, Argentina, Mexico, China, India, and South Africa.

ductive.’ Indeed, a judiciously set minimum wage can make a contribution to meeting social goals, without much distortion of employment patterns. This is described as the ‘new Keynesian’ view of macro-economic policy. According to this new view, wages have a dual role; affecting not just costs but also demands. They represent a cost of production for employers, and they are a primary source of income for wage employees and their families. In other words, wages are both a cost of production and an essential source of effective demand, i.e., they represent needs or desires backed with purchasing power.

This discussion shows that minimum wages, including their setting and practices, cannot be seen merely through the single lens of neo-liberal economic theory. Instead, minimum wages are also – if not predominantly – about political policy choices, based on the ideologies and interests of those who make the policies and regulations at particular times, and in particular places. As we have seen in the discussion above, in Indonesia the minimum wage has become a highly contentious political issue. Although Indonesia has adopted one of the most sophisticated systems of minimum wage setting in the Asian region since the early 1970s, surviving both the authoritarian New Order regime and now the *Reformasi*, the system still has problems; due to the lack of full implementation; and the system’s failures to protect the living standards of low wage workers. Instead of providing a floor for the most vulnerable workers in the informal economy, the minimum wage in Indonesia has become the effective wage for workers in the formal modern private sector, with much less influence in the informal sector. As well, the minimum wage setting processes within the Wage Councils have tended to become the forum for collective bargaining on wages between unions and the employers, facilitated by the government; which also highlights the failures of employers and organized workers to develop effective collective bargaining mechanisms at workplaces.

This situation with respect to minimum wages in Indonesia is typical of what the theorist Saget refers to as a ‘maxi minimum wage’ situation (Saget, 2008). According to Saget (2008), a considerable number of countries worldwide set minimum wages at levels that seem to be either far too low, or far too high, to be considered reasonable. Using data from more than 130 countries, including industrialized, developing and transitional countries, Saget identified anomalies in some countries to the effect that their minimum wages are so low in the wage structure that the minimum wage is not a significant constraint for enterprises (the so-called ‘mini minimum wage’). On the other hand, in some other countries the minimum wage appears to be very high in the wage distribution – to the point that it is in fact too high to be considered a genuine minimum wage (and is referred to by Saget [2008] as a ‘maxi minimum wage’). Saget (2008) considers Indonesia to be among the latter countries, which she claims are characterised by poorly developed collective bargaining. As Saget notes (2008: 26): ‘if minimum wage consultations are

the only forum where trade unions can make their demands known, there is a danger that the resulting minimum wage is not a genuine threshold, but rather the actual wage earned by most formal workers.'

The *Reformasi* era in Indonesia has made it possible for unions to be more involved in the minimum wage setting processes, and now at least provides unions with a chance to practice collective bargaining and develop their capacity, with the facilitation of the state. Moreover, there is a growing understanding among union leaders that minimum wage setting, particularly through the Wage Councils, is largely a political process, and thus should be responded to politically; through the organization of their collective powers. Such an understanding is beneficial in the current situation in Indonesia, as it provides both insights and opportunities for Indonesian unions to analyse the problems they are facing and identify their positions; providing further evidence for the proposition in this study that labour law is part of a historical process and the outcome of struggle between different social groups and of competing ideologies. In the longer term, however, Indonesia's unions should understand that the minimum wage must also be combined with other considerations, to ensure it remains reasonable and avoids the problems typical of 'maxi minimum wage countries', such as widespread non-compliance and under-developed collective bargaining. This is a challenge Indonesia needs to tackle, and it requires positive contributions from all parties in the industrial relations process, including the unions, the employers, and the state. For the time being, as we have seen in the case studies above, the mainstream trade union movement, at both the regional and national levels, has chosen political strategies to effect change; frustrated by what they see as the continuing ignorance of both the state and employers, and the continuing lack of respect for their concerns.

## 8 CONCLUSION

Instead of being a wage floor, the minimum wage in Indonesia has generally become the effective wage for most workers in the absence of an effective collective bargaining system. Indeed, the minimum wage setting process within Wage Councils is the only forum through which the newly-developed trade union movement can demonstrate what they are doing to defend their members and workers in general; especially given that attempts to negotiate wages at the plant level run the risk of resulting in the dismissal of the unions' officials. With social dialogue dealing mainly with the fixing of a minimum wage, considerable pressure is exercised within the arena of the Wage Councils, leading to demands for increases that may seem excessive. In sum, minimum wage setting in Indonesia has become a serious source of conflict. Although during the New Order era the state pursued a low wage strategy in order to attract investment, and thus used the minimum wage as a tool by which to control labour unrest, during the *Reformasi* the state seems

to be more ambiguous with respect to minimum wages, and has considerably weakened. On the one hand, the state would be keen to retain control over the setting of minimum wages (and thus to some extent control over labour); but on the other hand, the state is reluctant to place wage setting fully in the hands of collective bargaining, which would require clear protection and facilitation for the development of stronger trade unions as important actors in collective bargaining, alongside employers' organizations.

It is the opinion of the author that in the current situation, it is better for labour groups in Indonesia to use political strategies to achieve their ends, as such strategies appear at present to provide the best opportunities. Taking into account the recent successes and challenges associated with the political approach to addressing minimum wages in Indonesia, there appear to be at least three benefits of adopting such an approach, which are likely to be useful for the Indonesian labour movement. The first benefit of a political approach is that it gives unions the opportunity to critically analyze wage policies both in theory and in practice, outside of the free market and competitive economic paradigms that have reigned over government policies for more than four decades. By seeing minimum wage issues as largely political issues, rather than merely economic ones, unions can identify the political interests of key influential players, by employing or testing particular economic models to assist with the setting of minimum wages. This does not mean that the traditional economic approach to minimum wages has no place; only that such an approach will be more useful when it is situated within local political contexts, and is tempered by the understanding that public policy processes are a function of different variables, many of which are highly contingent on the wide range of interests, motivations and actions of the actors involved.

The second benefit of adopting a political approach to minimum wages is that a decline in the minimum wage, seen through a political lens, can more readily be recognised as a sign of a decline in union power. Minimum wage policies thus become useful indicators of the unions' level of influence in society and in the workplaces. In countries and locations where pro-labour forces are weak or in decline, arguments in support of increasing the minimum wage focus mainly on the issue of relieving poverty, particularly for low-skilled workers. Although this may be a useful social policy goal, looking at labour issues through a political lens will enable activists to consider whether or not this argument is likely to produce the level of political support that a more traditional labour issue may generate – especially in situations where the identified target group (for example, low-skilled workers) is highly stigmatized and thought of in pejorative terms; as is arguably the case in Indonesia. By considering the persuasiveness and power of one's current argument from a political point of view, the argument can be amended as required.

The third benefit of taking a political approach is that when minimum wage policies are seen as a political issue, this perspective may also give unions a useful broader view: that labour policies and legislation, especially minimum wage policies, are in fact the outcomes of struggles between different social groups, and between competing ideologies and interests at both the group and individual level. That view, which is also the view arrived at through the analyses in this study, leads to another potentially useful conclusion: that in the future, as in the past, the crucial element in the making of labour policies will be the power of capital, and the countervailing power of organized labour.

