REFORMULATING INDONESIA'S MINIMUM WAGE POLICY: TRANSITIONING FROM A MINIMUM WAGE-BASED APPROACH TO A PRODUCTIVITY-BASED WAGE STRUCTURE

Dityas Nandariztyani[1], Isbandi Rukminto Adi[2]
[1,2]Department of Social Welfare, University of Indonesia, Depok, Indonesia
dityas.nandariztyani31@ui.ac.id

ABSTRACT

This study examines the reformulation of Indonesia's minimum wage policy under Government Regulation (GR) No. 51 of 2023, which was introduced following Constitutional Court decisions that mandated revisions to the Job Creation Law. The policy reform aims to balance worker protection, business certainty, and economic equity within the broader framework of social welfare. Using a qualitative research approach, data were collected through in-depth interviews with government officials, labor unions, employer associations, and members of the National Wage Council, complemented by document analysis of regulatory texts and consultation records. The findings reveal that the reformulation was driven by four structural issues: mistargeted application of the minimum wage, industrial burden, recurring labor conflicts, and weak implementation of wage structure and scale. The formulation process combined rational, political, and incremental decision-making models, reflecting bounded political rationality. Empirical results indicate that the policy's implementation has led to informal compromises between employers and workers, weak enforcement mechanisms, and persistent wage inequality. Although the regulation introduces a shift toward a productivity-driven wage system, its effectiveness remains limited by institutional and administrative constraints. The study concludes that aligning policy intentions with social welfare values requires strengthening institutional enforcement, expanding the application of structured wage systems, and promoting inclusive social dialogue to ensure that the minimum wage functions effectively as both a social safety net and an economic stabilizer in Indonesia's evolving labor market.

Keywords: Labour's welfare, wage structure and scale, social policy

INTRODUCTION

The minimum wage is one of the key instruments in developing welfare society, designed to provide income support and guarantee a minimum standard of living for citizens. It also forms part of a broader social policy framework whose fundamental goal is to reduce inequality (Hall & Midgley, 2004, p. 4). This notion aligns with Midgley and Tang's (2008) argument that income protection plays a crucial role in reducing economic insecurity (Midgley & Tang, 2008, p. 18). Hence, the minimum wage policy can be understood as a component of the social protection system that serves as a safety net for low-income workers, ensuring their capacity to meet essential needs such as food, clothing, and healthcare.

In Indonesia, the regulation of minimum wage policy has undergone significant changes since the enactment of Law No. 11 of 2020 on Job Creation, initially implemented through Government Regulation (GR) No. 36 of 2021 on Wages. This process has been characterized by a persistent tension between safeguarding workers' welfare and maintaining business sustainability. The situation became more complex following Constitutional Court Decision No. 91/PUU-XVIII/2020, which declared the Job Creation Law conditionally unconstitutional. In response, the government enacted Law No. 6 of 2023 as a replacement, which now serves as the legal foundation for GR No. 51 of 2023 on Wages, revising GR No. 36 of 2021.

The substantive revisions introduced by GR No. 51 of 2023 include clearer criteria for determining district and city minimum wages, refinement of the wage calculation formula, and the delegation of authority to the central government to establish a special formula under certain conditions. However, these regulatory improvements have not fully resolved the underlying debate over how the minimum wage should be determined or the role of labor unions in the process. Labor unions argue that the removal of the Decent Living Needs (Kebutuhan Hidup Layak, KHL) component from the formula undermines the principle of social justice and diminishes their participatory role in wage determination.

This dissatisfaction led labor unions to challenge the regulation again, resulting in Constitutional Court Decision No. 168/PUU-XXI/2023. The Court concluded that the wage provisions in Law No. 6 of 2023 could potentially disadvantage workers, prompting the government to revise the minimum wage policy once more. The deep divisions among key policy actors, particularly over the issue of minimum wages, have prolonged the policy-making process and created legal as well as implementation uncertainties.

Determining the appropriate level of minimum wage is a complex balancing act that requires policymakers to reconcile the dual goals of protecting workers' living standards and ensuring business viability. If wages are set too low, workers' purchasing power and living conditions deteriorate, potentially widening economic inequality. Conversely, excessively high wages may increase business costs, reduce profitability, and even lead to layoffs (Sum et al., 2015, p. 316).

Empirical studies have shown different results regarding the effectiveness of minimum wage policies. Such policies affect not only low-wage workers but also broader social and economic outcomes. In Brazil, the formalization of minimum wage policy has contributed to poverty reduction, whereas in Germany, its impact on poverty has been more limited. In Indonesia, increases in the minimum wage have been associated with higher labor productivity in the manufacturing sector and greater labor force participation, without a corresponding rise in unemployment (Nanos, 2023; Bruckmeier & Bruttel, 2021; Rahmi & Riyanto, 2022). Nevertheless, according to Kompas (Mediana, 2023), implementation remains inconsistent, as many workers with more than one year of service

continue to receive the minimum wage despite regulations specifying that it applies only to those with less than one year of tenure.

Baldock et al. (2012) suggest that social policy outputs can be analyzed through three dimensions: intentions and objectives, administrative and financial arrangements, and outcomes. The first dimension concerns the policy's goals as a mechanism for income redistribution, risk management, and social inclusion. The second emphasizes the administrative and financial mechanisms that support the realization of these goals, including institutional structures and public financing arrangements. The third pertains to the actual outcomes of the policy. This discussion focuses on the first dimension, namely the intentions and objectives underlying the reformulation of Indonesia's minimum wage policy under GR No. 51 of 2023, to examine the extent to which the policy design aligns with the principles of social welfare.

Social policies often have intentions and objectives that are not entirely clear or consistent. Inconsistencies may arise from differing policy directions that evolve over time or even contradict each other. Some policy goals are stated explicitly, while others are implicit and can only be understood through an analysis of the political processes and ideologies that influence policymakers' decisions. According to Baldock et al. (2012, pp. 13–16), the intentions and objectives of social policy can be grouped into three main categories: redistribution, risk management, and the reduction of social exclusion.

RESEARCH METHOD

The method used in this research is a qualitative approach, which enables the researcher to understand the meanings behind the experiences and perspectives of the actors involved in the formulation of the minimum wage policy. This approach was chosen because it allows for an in-depth exploration of social and political dimensions that are difficult to capture through quantitative data (Rubin & Babbie, 2017, p. 69). Data were collected through in-depth interviews with various stakeholders who play a direct role in the policy process, including government representatives, labor unions, business actors, and academics.

The informants in this study consist of four main groups selected based on the relevance of their roles and involvement in the formulation and implementation of the minimum wage policy. The informants are as follows: (1) the first group represents the government, particularly the Ministry of Manpower, which is responsible for drafting labor-related regulations, including members of the technical team that formulated GR No. 36 of 2021 and GR No. 51 of 2023. In addition, representatives from the Coordinating Ministry for Economic Affairs were included because of their coordinating role across sectors, particularly with the Ministry of Manpower; (2) the second group consists of representatives of labor unions who have been directly involved in policy advocacy, both through submitting judicial review petitions to the Constitutional Court concerning minimum wage policies and through participation in the formulation of GR No. 36 of 2021 and GR No. 51 of 2023; (3) the third group includes representatives of business

associations such as the Indonesian Employers Association (APINDO) and the Indonesian Chamber of Commerce and Industry (KADIN), especially those who have direct understanding and experience in implementing minimum wage policies and who participate actively in policy consultation forums such as the Wage Council or tripartite social dialogues; and (4) the fourth group consists of members of the National Wage Council, which functions as a tripartite body that provides advice, recommendations, and considerations to the government regarding the formulation of wage policies.

In addition to in-depth interviews, data collection was also carried out through document analysis related to minimum wage regulations. The documents reviewed include meeting minutes from public consultations, presentation materials from ministries during consultation or dissemination activities, Constitutional Court rulings, and the substantive contents of minimum wage regulations in GR No. 36 of 2021 and GR No. 51 of 2023.

All collected data were organized through a multi-stage coding process, beginning with open coding, followed by axial coding, and selective coding to generate the findings of this research. Through these stages, raw and fragmented information was organized into more systematic and meaningful findings, providing a comprehensive understanding of the dynamics underlying the formulation of the minimum wage policy as outlined in GR No. 51 of 2023.

RESULT AND DISCUSSION

Problems Driving the Minimum Wage Policy Reform under Government Regulation (GR) No. 51 of 2023

The enactment of GR No. 51 of 2023 on Amendments to GR No. 36 of 2021 concerning Wages represents the government's response to Constitutional Court Decision No. 91/PUU-XVIII/2020, as well as a substantive effort to refine the direction and implementation of Indonesia's minimum wage policy. The reform was driven by four major issues that significantly affected the effectiveness of the previous regulation: (1) mistargeted implementation of the minimum wage, (2) industrial burden and economic risks, (3) industrial relations conflicts, and (4) suboptimal implementation of wage structure and scale.

First, there was evidence of misdirected application of the minimum wage. Normatively, the minimum wage is intended as a safety net for workers with less than one year of service. Article 24(1) of GR No. 36 of 2021 explicitly stipulates that the minimum wage applies to workers or laborers with a tenure of less than one year. However, in practice, many companies have used the minimum wage as a general pay standard, even for experienced workers. Consequently, senior workers often receive wages that are not substantially different from those of new employees. Data on the ratio between first-year wages and senior-worker wages in 2022 reveal that in some regions, such as Riau Islands, the figure approached 0.91, indicating minimal differentiation based on tenure and productivity. This condition is exacerbated by the low percentage of

companies with Collective Labor Agreements (Perjanjian Kerja Bersama or PKB), resulting in wage adjustments for senior workers that merely follow the annual minimum wage increase.

This phenomenon is concerning. As observed by Goderis (2025) in the case of the Netherlands, a minimum wage system trapped in a static nominal approach tends to widen the gap between minimum-wage earners and other social groups whose income grows in line with economic progress. In Indonesia, the inability to develop a progressive, tenure-based wage structure risks creating wage stagnation amid economic growth. Without policy adjustments that take tenure and productivity into account, the system may exacerbate inequality and erode the competitiveness of the national workforce.

Second, from the perspective of industrial burden, the government recognized that the previous regulation often emphasized worker protection at the expense of business sustainability. Policymakers acknowledged that the prior orientation leaned heavily toward labor interests, which risked triggering a domino effect on competitiveness and macroeconomic stability. Employers also expressed concern that excessive state intervention could constrain bipartite dialogue at the enterprise level. For them, direct negotiation between employers and workers constitutes the foundation of balanced and constructive industrial relations.

Achieving equilibrium between workers' wage demands and employers' capacity to pay is inherently complex. Economic theory warns that setting minimum wages above market equilibrium can reduce labor demand while increasing labor supply, potentially triggering unemployment. Moreover, when labor supply is high and workers' bargaining power is weak, wage negotiations become increasingly difficult (Kurniawan et al., 2025). The failure to achieve balance creates a paradox in which policies intended to protect workers may inadvertently harm them. An excessively high minimum wage may protect current employees but simultaneously act as a barrier to entry for new job seekers, especially in labor-intensive sectors and micro, small, and medium enterprises (MSMEs) with limited profit margins. As a result, instead of enhancing social welfare, such policies risk exacerbating inequality by increasing unemployment, which is a fundamental social problem.

Third, industrial relations conflicts have also been a critical driver of reform. Tensions frequently emerged in regions where the minimum wage had reached the upper limit of the formula, preventing further increases. When wages stagnate despite formula compliance, dissatisfaction and unrest arise, undermining harmonious labor relations. Such disputes can disrupt investment climates and social stability at the local level, reflecting unresolved tensions between worker protection and business viability. Field findings align with Sugianto and Sutanto (2025), who observed that labor demonstrations occur routinely during minimum wage determinations and on Labor Day in East Java, as expressions of frustration over unmet aspirations. Labor unions perceive existing discussion forums as mere formalities, lacking substantive impact on decision-making.

This condition indicates an erosion of trust in the tripartite mechanism, suggesting that the minimum wage debate risks becoming a source of prolonged industrial and social conflict unless addressed through more participatory and context-sensitive approaches.

Fourth, a more fundamental issue lies in the imperfect implementation of wage structure and scale at the enterprise level. The wage structure and scale were designed to ensure wage progression based on tenure, position, and competency, thereby shifting union attention away from annual minimum wage demands. The failure to implement SSU effectively is seen as one of the primary reasons labor unions continue to contest minimum wage increases. It is further aggravated by weak government enforcement. Consequently, pressure surrounding minimum wage adjustments recurs annually, diverting attention from internal mechanisms for wage advancement within firms.

As highlighted by Szymczak et al. (2025), when worker productivity rises, wages should logically follow. However, this correlation has not materialized in Indonesia. The share of income received by workers remains stagnant, and the anticipated increase in the labor share of income has failed to occur. Rapid increases in the minimum wage, which theoretically should boost labor's income share, instead act as a neutralizing factor when the minimum wage becomes overly dominant, distorting market mechanisms that should reward productivity.

The emergence of GR No. 51 of 2023 reflects the government's recognition that the minimum wage system requires structural recalibration to restore its dual function as both a social protection tool and an economic policy instrument. The four interrelated challenges—mistargeted targeting, industrial burden, recurring labor conflicts, and weak wage structure implementation—underscore the need for a more balanced, evidence-based, and adaptive wage policy framework to achieve equitable growth and sustainable labor welfare in Indonesia.

Objectives of the Minimum Wage Policy under Government Regulation (GR) No. 51 of 2023

As a response to various structural problems that emerged in the implementation of the previous policy, the reformulation of the minimum wage policy through GR No. 51 of 2023 was designed with three main objectives: (1) to protect workers through the assurance of purchasing power, (2) to create legal and business certainty, and (3) to recognize workers' contributions to economic growth in their respective regions. The research findings indicate that these three objectives reflect the government's effort to balance the interests of workers and employers within a broader framework of social policy.

From a redistributive perspective, the minimum wage policy functions as a state instrument to redistribute economic resources more equitably. The government emphasized that the transition from GR No. 36 of 2021 to GR No. 51 of 2023 was not merely a technical adjustment of the formula but also an effort to ensure workers' purchasing power and prevent the practice of underpayment. Field findings reveal that

this policy is perceived as a form of social protection aimed at guaranteeing the fulfillment of basic needs and preventing workers from falling into poverty. This is consistent with the concept of vertical redistribution proposed by Baldock et al. (2012), in which resources are transferred from economically stronger groups to lower-income groups to achieve social justice. At the same time, horizontal redistribution is reflected in the policy's attempt to equalize living standards among workers across regions by taking into account regional economic growth and inflation. Therefore, the minimum wage policy serves not merely as an economic tool but also as an expression of the state's social function in achieving a fair distribution of welfare.

In the context of risk management, the reformulated minimum wage policy functions as a protective mechanism against economic uncertainty and labor market fluctuations. The government views legal and business certainty as essential prerequisites for both economic stability and worker protection. Through a more measurable formula, this policy provides employers with clarity in fulfilling wage obligations while ensuring business continuity. The findings indicate that employers have interpreted this as a form of policy predictability that helps reduce labor cost uncertainty. Within the framework of Baldock et al. (2012), this function aligns with the principle of social risk management, in which public policy serves to protect individuals and institutions from socio-economic risks that cannot be borne solely by the market. Consequently, the minimum wage policy functions as an instrument of social and economic stabilization, protecting workers from exploitation risks while maintaining business resilience against excessive volatility.

From the social inclusion dimension, the minimum wage policy is understood as an effort to broaden the socio-economic participation of workers, particularly those in labor-intensive sectors and groups with low bargaining power. The reformulated policy under GR No. 51 of 2023 emphasizes recognition of workers' contributions to regional economic growth. This perspective reflects a paradigm shift in which workers are no longer viewed merely as production costs but as key actors in local economic development. By ensuring that workers earn a decent income, the policy helps prevent social marginalization resulting from wage disparities and strengthens social cohesion at the regional level. Within the framework of Baldock et al. (2012), the policy serves to reduce social exclusion by expanding access to welfare and strengthening workers' participation in the formal economy.

Based on the above discussion, the research findings indicate that the reformulation of the minimum wage policy through GR No. 51 of 2023 represents not only a technical adjustment in wage-setting but also a transformation in the social function of wage policy. Through its three core objectives, the state aims to revive the role of the minimum wage policy as a tool for public welfare. This policy plays a dual role: on the one hand, it ensures social protection and workers' purchasing power, and on the other, it fosters legal certainty and a stable business environment. Hence, the reformulation of the policy represents the realization of the welfare state's role in balancing social justice, economic efficiency, and inclusive development.

The Formulation Process of the Minimum Wage Policy

The formulation process of GR No. 51 of 2023 on wages demonstrates a decision-making pattern that was not entirely rational-technocratic but was also heavily influenced by political dynamics and compromises among actors. Within the framework of policy decision-making theory, this phenomenon reflects a combination of the rational approach, the political approach, and incrementalism, which together explain the deliberative yet centralized nature of Indonesia's wage policy process (DiNitto and Johnson, 2016, pp. 4–11; Howlett and Ramesh, 2003, pp. 166–173).

Formally, the government's working pattern during this reformulation process followed a rational structure as described by Spicker (2014, p. 224), emphasizing systematic efforts to identify problems, gather data, consider alternatives, and formulate efficient solutions. This was evident in the national consultation sessions held in 18 provinces, which involved 5,400 participants, both online and offline, representing workers, employers, academics, and international institutions such as the International Labor Organization (ILO). These consultations illustrate the government's attempt to establish an evidence-based policy and to strengthen social legitimacy before drafting the regulatory substance. This approach aligns with the logic of the rational model, which emphasizes systematic planning and technical rationality in decision-making (DiNitto and Johnson, 2016, p. 4).

However, this rationality was limited by bounded rationality (Simon in DiNitto and Johnson, 2016, p. 5). While the government sought broad consultation, final decisions remained centralized within the executive authority. Although labor unions and employers were formally involved through tripartite institutions such as the National Wage Council (Depenas) and the National Tripartite Cooperation Body (LKS Tripnas), the final determination of the wage formula and the alpha index was decided by the central government. This indicates that the policy process operated between the ideal of rationality and the political reality of negotiation, consistent with Spicker's (2014, p. 225) assertion that public policy is fundamentally the product of compromise among competing interests rather than purely objective calculation.

From a political perspective, the formulation of GR No. 51 of 2023 reflected intense negotiation among tripartite actors. The discussions within the National Wage Council revealed sharp differences: labor unions rejected certain provisions, such as Article 26A, while employers emphasized flexibility to ensure that the formula did not excessively burden labor costs. The government acted as a mediator, attempting to balance social stability and economic sustainability. According to DiNitto and Johnson (2016, pp. 7–8), a policy may be considered "politically rational" if it secures the support of dominant interest groups, even if it is not entirely efficient from a technocratic standpoint. The extended process of public consultation and technical deliberation in the case of GR No. 51 of 2023 can thus be interpreted as an effort to secure both political and social legitimacy for the policy.

From the perspective of policy change dynamics, the reformulation of GR No. 51 of 2023 illustrates a pattern of incrementalism, which refers to gradual policy adjustments rather than radical transformation (Lindblom in DiNitto and Johnson, 2016, p. 10). The government did not overhaul the minimum wage structure but instead made targeted revisions, such as adjusting the formula, clarifying the role of regional wage councils, and emphasizing the implementation of the wage structure and scale. This conservative approach focused on technical improvement without altering the underlying policy framework. Politically, this strategy enabled the government to avoid major resistance from labor unions or business associations, as the revisions were framed as limited adjustments rather than a wholesale paradigm shift in wage policy.

Despite its gradual nature, the reformulation of GR No. 51 of 2023 also exhibited elements of policy punctuation, characterized by sudden and significant change driven by institutional pressure. The Constitutional Court Decision No. 91/PUU-XVIII/2020 served as a crisis point, compelling the government to revise the regulation swiftly to restore the legal and political legitimacy of the wage policy. As noted by DiNitto and Johnson (2016, p. 11), policy punctuations often emerge in times of crisis, when existing systems face external pressures that cannot be addressed through incremental adjustments. In this case, constitutional demands and post-pandemic labor market dynamics forced the government to accelerate the reform of GR No. 36 of 2021 into GR No. 51 of 2023 through a more inclusive yet directed process.

The formulation of GR No. 51 of 2023, therefore, cannot be categorized purely as a product of either the rational or the political approach. Instead, it embodies the mixed scanning model, a hybrid framework that combines incremental filtering of alternatives with strategic decision-making based on in-depth analysis (Etzioni in Howlett and Ramesh, 2003, pp. 173–175). The government filtered key issues through staged consultations and deliberations (incremental approach) before finalizing strategic decisions in a more centralized and rational manner. This combination allowed the policy to remain adaptable to political pressures while being responsive to the technical needs of the national wage system.

The formulation of GR No. 51 of 2023 demonstrates a form of bounded political rationality. Decisions were made through prolonged deliberation and negotiation, yet remained oriented toward broader policy goals to achieve a balance between business certainty and worker welfare. This hybrid approach reflects the nature of social policy-making in Indonesia, where technocratic ideals are never entirely free from political calculation and the influence of vested interests. Ultimately, the reform process demonstrates how a pragmatic interplay between empirical reasoning and political negotiation shapes wage policy decisions in Indonesia. This underscores that the sustainability of social policy reforms depends not only on the technical coherence of their design but also on institutional capacity for negotiation, consensus-building, and maintaining long-term legitimacy.

Outcomes and Impacts of the Minimum Wage Policy

Based on research findings and document analysis, the outcomes of the minimum wage policy under GR No. 51 of 2023 reveal consequences that extend beyond the technical aspects of the wage-setting formula. At least five major outcomes were observed in practice: (1) tensions between workers' demands and companies' financial capacity, (2) inconsistency and policy discretion, (3) weak enforcement and supervision, (4) limitations of the minimum-wage-based system, and (5) a high Kaitz Index. Among these outcomes, the most significant impacts were the emergence of informal agreements or under-the-table compromises between workers and employers as a means of adaptation, which undermined the effectiveness of minimum wage protection, and a moderate reduction in interregional wage disparities, though not yet significant.

These findings illustrate a condition of bounded rationality and political compromise, as described by DiNitto and Johnson (2016) and Spicker (2014), in which social policy outcomes are shaped by negotiation among actors operating under limited information and capacity. The government sought to balance social rationality (worker protection), economic rationality (competitiveness), and political rationality (legitimacy). However, the presence of discretionary practices and the rapid pace of regulatory adjustments indicate a mixed scanning pattern, combining technocratic decision-making with political calculation (Howlett and Ramesh, 2003).

The tension between workers' demands and business capacity reflects the classic dilemma of redistributive policy. This finding is consistent with Szymczak et al. (2025), who showed that while increases in the minimum wage in European Union countries could raise the labor share by 8 to 9 percentage points, such changes did not automatically lead to higher productivity unless accompanied by internal wage structure reforms based on competency and position (wage structure and scale). Therefore, the policy transition from a minimum-wage system to a structured wage system is crucial for maintaining a balance between equity and competitiveness.

The findings on weak supervision and informal compromises also align with Setyadi et al. (2025), who emphasized that the effectiveness of social policy in Indonesia depends heavily on administrative capacity and the creation of productive employment. Their study found that the reduction of extreme poverty is more sensitive to the expansion of job opportunities and education than to macroeconomic growth alone. This reinforces the argument that without effective monitoring and workforce skill enhancement, the minimum wage policy loses its social leverage as a tool for welfare improvement.

Furthermore, the high Kaitz Index indicates that the minimum wage level in Indonesia has exceeded the average payment capacity of enterprises. According to the SDG-8 analysis (Szymczak et al., 2025), the success of labor market policies should not be measured merely by the magnitude of wage increases but by the alignment among wages, productivity, and employment absorption. In other words, wage policy should aim

to link compensation with performance rather than merely fulfilling normative benchmarks.

The outcomes and impacts of GR No. 51 of 2023 highlight the complexities of balancing protection and productivity within the national wage system. The persistence of informal practices, weak enforcement, and uneven institutional capacity demonstrate that policy reform must go beyond formulaic adjustments to address deeper structural and administrative challenges in Indonesia's wage governance.

Constitutional Court Decision No. 168/PUU-XXI/2023

Constitutional Court Decision No. 168/PUU-XXI/2023 serves as a pivotal moment for reorienting Indonesia's wage policy toward a more inclusive and welfare-oriented framework. However, as noted by Szymczak et al. (2025), setting minimum wages based on living standards (a concept similar to the Decent Living Needs or Kebutuhan Hidup Layak, KHL) carries a fiscal distortion risk if not designed through a transparent and carefully structured methodology. Therefore, the reintroduction of KHL following this decision must be undertaken cautiously, since uncontrolled living cost surveys could reintroduce fiscal imbalances and create investment uncertainty.

GR No. 51 of 2023 marks the beginning of a paradigm shift in Indonesia's wage policy, transitioning from a minimum-wage-driven approach to a productivity-driven wage structure. However, its effectiveness remains limited due to inconsistent regulation, weak enforcement, and inadequate capacity for social dialogue. Empirical evidence from related studies shows that the success of such social policies depends greatly on the synchronization among social protection, job creation, and skills development, rather than relying solely on the minimum wage policy itself.

Hence, the future direction of wage policy should reaffirm the function of the minimum wage as a safety net, expand the implementation of wage structure and scale (SSU) at the enterprise level, strengthen monitoring systems and productivity data, and establish bipartite dialogue as the main foundation of policy legitimacy. If these measures are implemented effectively, Indonesia's wage policy could evolve into a simultaneous socio-economic instrument that protects workers, ensures business stability, and enhances national competitiveness.

CONCLUSION

The reformulation of Indonesia's minimum wage policy through Government GR No. 51 of 2023 represents the state's effort to balance the three central functions of social policy simultaneously: economic redistribution through the protection of workers' purchasing power, social risk management for business continuity, and the reduction of social exclusion by recognizing the contribution of regional workers. This policy underscores the dual role of the state as both a social protector and an economic stabilizer, reflecting the foundational values of social welfare such as justice, equity, and the protection of vulnerable groups.

However, the rationality underlying this policy has not been fully realized at the implementation level. The main obstacles lie in structural weaknesses within the wage system, particularly in the limited application of the wage structure and scale, as well as the weak enforcement of labor regulations. These limitations have led to a lack of wage differentiation based on tenure and productivity, resulting in income stagnation among experienced workers. Consequently, the goals of improving productivity and achieving distributive justice remain difficult to attain.

Moreover, the policy exposes an inherent contradiction in social protection. When minimum wages are set beyond the economic capacity of firms, a policy originally designed to safeguard workers may instead create a barrier to entry for new labor market participants and increase the risk of layoffs, especially in labor-intensive industries. The prevalence of informal compromises between employers and workers below the normative standards demonstrates a loss of social functionality in the minimum wage instrument. Without stronger institutional mechanisms, compliance systems, and regulatory oversight, the policy risks losing its essence as a social safety net for low-wage workers.

Substantively, the effectiveness of the minimum wage policy depends on the government's ability to synchronize technocratic rationality with political and economic realities. The realization of social welfare values such as protection for the vulnerable, distributive justice, and participatory governance requires a broader, integrated approach that links wage policy with employment creation, skills development, and meaningful social dialogue.

Looking ahead, the policy direction and future research should focus on strengthening wage structure and scale implementation at the enterprise level, ensuring more effective labor law enforcement, and institutionalizing bipartite and tripartite dialogues as the foundation of wage policy legitimacy. Such steps are crucial to shift Indonesia's wage system from a minimum-wage-based regulation toward a productivity-driven wage structure, where competency, tenure, and contribution serve as the main bases of remuneration.

In this context, the minimum wage policy should no longer be viewed merely as a normative economic tool, but as a people-centered social policy instrument capable of simultaneously protecting workers, ensuring business stability, and enhancing national competitiveness within an equitable and inclusive development framework.

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