

## THE CHALLENGE OF MINIMUM WAGE INCREASES

Last year saw many labor protests take place in Jakarta as well as in several major cities in Indonesia. One of their demands: a higher minimum wage or “provincial minimum wage” (UMP). Although the demonstrations were well organized, they caused traffic jams, especially in Jakarta. Owners of factories suffered, as the protests incurred losses on them because their employees took part in the demonstrations.

The current UMP of the Special Region (DKI) of Jakarta is Rp 1,529,150, a figure which labor organizations wish to raise to Rp 2,799,062 for 2013. As companies countered with Rp 1,978,789 while the Jakarta’s Board of Remuneration recommended Rp 2,216,243,68, the newly-elected Governor of DKI Jakarta Joko Widodo put his seal of approval on Rp 2,200,000, a rise of 44%. By any measure, a 44% hike, is high if not very high.

Surely, the hefty minimum wage increase translates into higher costs to enterprises, especially small and mid-sized companies in the Jakarta area. For labor-intensive industries, the burden will be even higher. Some of them have even said that they will not be able to survive unless they reduce the numbers of their employees. Accordingly, the situation may have an impact on companies and eventually the economy as a whole. Indeed, it is not always easy to make a fair decision that satisfies all parties concerned.

The UMP falls under Law No. 13/2003 on Labor, which clearly states that the government determines the minimum wage by taking into account workers basic needs such as food,



clothing, housing, education, health and recreation, and pension, as well as the economy’s productivity and ability to grow. This conforms to a speech some time ago by President Susilo Bambang Yudhoyono, who said that the era of cheap labor is now over.

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The minimum wage is determined by the governor by taking into consideration the recommendation of the Board of Remuneration in each province and/or regent or mayor. The elements that make up the wage and implementation stages are regulated by the ministry. The law also says that labor wages shall allow workers to lead a decent life but that incremental raises are subject to the performance of their companies. As such, owners of companies have a say in determining the UMP as it has a direct bearing on their businesses.

As it is, the UMP has now been decided not only for DKI Jakarta but also for other provinces. The question is, what happens if companies refuse to raise the wages? The Labor Law is clear on this issue: owners of companies must pay the determined minimum wage or face a jail term between 1 (one) and 4 (four) years maximum and/or be fined between Rp 100 million and Rp 400 million. So, can owners afford to violate this provision?

There is, however, a middle ground. The Labor Law contains the provision of deferment, which frees entrepreneurs, over a certain period of time, from the obligation to pay the minimum wage. But once the period of time elapses, companies have to pay the minimum wage as

set out in the UMP. This alternative is recommended by the Indonesian Employers Association (APINDO) and the Indonesian Chamber of Commerce and Industry (KADIN).

All companies face challenges in one form or another, labor costs being just one of them. It is a given that labor costs will increase every year. To that end, there is no other way than for companies to find a better solution (other than seeking a deferment) in order to survive despite the increase of labor costs. 