

# The Influence of Regional Minimum Wage Discretion on Wage Disparity and Company Relocation

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# The Influence of Regional Minimum Wage Discretion on Wage Disparity and Company Relocation

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**Abstract.** Wage disparity has been more apparent since 2015, causing anxiety among employees and employers. Therefore, a strategic policy in wage governance is required as the solution to address the issue. The current wage discretion policy was made by the governor through the Decree of the Governor of East Java number 188/665/KPTS/013 2018 regarding the minimum wage for the districts and cities in East Java province. Twenty-two regions of the regencies and cities received 11-24,57% of wage increment while the other sixteen regions, which have a relatively higher standard of minimum wages, received 8,03% wage increment in accordance with the Government Regulation year 2015 number 3. The purpose of this research is to analyze the influence of wage discretion in solving the wage disparity problem and company relocation. The subjects of this research were labor union, Indonesian business association (APINDO), and government based on purposive random sampling method. The data analysis method used is a descriptive-qualitative method, including interviews with the research subjects, triangulation, international journals, documents, and articles. The finding of the research shows that the minimum wage discretion policy influences 1) Decrease in wage disparity; 2) Increase in companies relocating to areas with lower minimum wage, and 3) Decrease in labor demand. Therefore, the minimum wage discretion policy should consider the following aspects, such as regional condition, decent living needs, company types, national economic growth, and inflation rates.

**Keywords:** wage discretion, disparity, economy growth, relocation

## INTRODUCTION

Minimum wage is considered as labor protection, as stated in the labor regulation. Countries which applies low minimum wage standard will face international pressure to raise the minimum wage or receive international sanction in the form of the export tariff increase. Every year, the minimum wage is always the focus of discussion among business owners, government, and labor unions. Wage increment never becomes an

easy task for the business, especially during uncertain economic conditions in which businesses are pressured by the increasing production cost and distribution. The condition is triggered by labors demanding higher wages, although the labor demand decreased. [1]–[4] The wage council discussion to determine minimum wage is always tinged with debates. The subjects of the debates include 1) related to a comparison between the real wage and productivity growth, and 2) the minimum wage needs [5], [6]. The reasons for the debates are related to retaining competitiveness of the labor-intensive industry and the promotion of labor welfare, including welfare equality that is often traded off with economic growth. [7], [8]. Protection warrant for decent minimum wage becomes government responsibility in accordance with state welfare conception. [9] Minimum wage is the implementation of labor protection by the government to support a decent living standard. Minimum wage is decided based on the decent living standard in consideration with productivity and economic growth. [10] The minimum wage standard itself often becomes a controversy among businesses and labors. Some labor unions argued that a greater increase in the minimum wage standard would result in better labor welfare. Other labor unions argued differently, as a greater minimum wage standard will lead to a greater rate of unemployment.

Governor as the authoritative body is expected to take a strategic step in the form of wage discretion to reduce wage disparity. *Freies eressen* or discretionary power refers to the authority of the government body in social activities to achieve public interests and social welfare of its citizens. [11] The purpose of this research is to analyze the wage discretion impact on solving wage disparity and company relocation issues.

## METHOD

The researcher would like to analyze whether the wage discretion policy can solve the wage issue, which has become a prolonged political issue without a permanent solution in East Java province. This research is a juridical empirical qualitative descriptive research. [12] The subject of this research is selected using Purposive Random Sampling method from the elements of labor unions, Indonesian Business Association

(APINDO), wage council, and the head of the labor and transmigration office for East Java Province. The key instrument in this research is the researcher; the supporting instruments are interviews, triangulations, journals, documents, and articles. The interviews were conducted in the form of individual interview and focus group discussion (FGD). The result of individual interviews shall be discussed in FGD to formulate several topics examined in the research. When there is any difference in perceptions based on the result of the interviews, triangulations will be conducted so that the participants are able to share the understandings toward the research topics. [13]

### RESULT

The Wage Discretion by the Governor of East Java Province was established in Decree number 188/665/KPTS/013 2018 dated November 16, 2018, regarding the Minimum Wage Standard year 2019 for regencies/cities in East Java. The Regencies Minimum Wage Standard in East Java is divided into four groups, namely; the first group consists of five regencies and cities (Surabaya City, Gresik Regency, Sidoarjo Regency, Pasuruan Regency, and Mojokerto Regency) with Regency Minimum Wage above Rp. 3.800.000. The second group consists of twelve regencies and cities with minimum wages ranged between Rp. 2.200.000 and Rp. 2.700.000, which includes Malang Regency, Malang City, Batu City, Jombang Regency, Tuban Regency, Pasuruan City, Probolinggo Regency, Jember Regency, Mojokerto City, Probolinggo City, Banyuwangi City, and Lamongan Regency. The third group consists of twelve regencies and cities with minimum wages around Rp. 1.800.000 or so, which includes Kediri City, Bojonegoro Regency, Kediri Regency, Lumajang Regency, Tulungagung Regency, Bondowoso Regency, Bangkalan Regency, Nganjuk Regency, Blitar Regency, Sumenep Regency, Madiun City, and Blitar City. The last group consists of the regencies with a minimum wage around Rp. 1.700.000 or so. Based on the data of regencies minimum wage standard, the wage discretion can decrease wage disparity in the following areas:

No	Regency/City	Minimum Wage 2018 (Rp)	Minimum Wage 2019 (Rp)	Minimum Wage increase (%)
1.	Pasuruan City	2,067,612.56	2,575,616.61	24.57
2.	Lamongan Regency	1,851,680.41	2,233,641.85	20.67
3.	Mojokerto City	1,886,387.56	2,263,665.07	20.00
4.	Ponorogo Regency	1,509,816.12	1,763,267.65	16.79
5.	Pacitan Regency	1,509,816.12	1,763,267.65	16.79
6.	Trenggalek Regency	1,509,816.12	1,763,267.65	16.79
7.	Magetan Regency	1,509,816.12	1,763,267.65	16.79
8.	Madiun Regency	1,576,892.91	1,763,267.65	11.82
9.	Ngawi Regency	1,569,832.19	1,763,267.65	12.32
10.	Probolinggo Regency	2,042,900.06	2,306,944.93	12.93
11.	Probolinggo City	1,886,387.56	2,137,864.48	13.33
12.	Tuban Regency	2,067,612.56	2,333,641.85	12.87
13.	Banyuwangi Regency	1,881,680.41	2,132,779.35	13.34

Based on the government regulation number 78 year 2015 [14], the minimum wage standard in East Java was increased by 8.03%, whereas the wage discrepancies in 13 areas in East Java are between 11.82% - 24.57%. The

relatively high wage discretion raises unsatisfactory reaction from both the employees and the employers. From 15 labor unions, 11 labor unions stated,

“Not all of the rules in government regulation number 78 year 2015 is terrible. There are appropriate ones and suitable for the application, so there is no need to refuse the government regulation number 78 year 2015. However, it needs revision so that the calculation for the amount of minimum wage is not only influenced by the national economic growth and the inflation rate, but also decent living standards survey result. Therefore, government regulation number 78 year 2015 should be revised.” 4 Labor Unions stated.

“Government regulation number 78 year 2015 favors the employers and limits the struggle of labor unions to achieve minimum wage that fulfills decent living standards.”

Whereas the head of Indonesian Business Association of East Java region stated regarding the wage discretion,

“Government regulation number 78 year 2015 may help the corporate to predict the minimum wage of the employees for the upcoming years so that they can conduct work contract with third parties. Government regulation number 78 year 2015 has been more accurate, but the government has to be firm in its implementation. The government must be able to create a policy that covers every side, not only based on the demands of the labors. If the government is unable to control the annual increase of minimum wage, the corporate may opt for company relocation to increase competitiveness.”

APINDO’s disagreement with the regulation leads to a lawsuit registered to administrative court (PTUN), which is still in the trial process without any verdict reached at the time being. According to APINDO, wage discretion is considered burdensome to business, especially for labor-intensive industry. On the other hand, the head of Labor and Transmigration office of East Java Province assessed that minimum wage discretion for the year 2019 was appropriate to decrease wage disparity and enable businesses to predict the wages for the upcoming year as consideration for offering work contracts to the third party. Two out of three heads of labor officers stated, “Wage discretion for the year 2019 has managed to reduce wage disparity,” while the other head of labor officer stated, “The wage discretion policy was appropriate, any businesses object to the policy may request a postponement for minimum wage payment.”

The opinions from the four of the Head of Labor Offices showed that the wage discretion policy is the appropriate way to reduce wage disparity and it may help predict the increase in the minimum wage standard of the upcoming year. Wage discretion enables higher labor wage to fulfill decent living standards.

The differentiated stipulation of Provincial Sectoral Minimum Wages will have a positive impact on employment opportunities. It means accommodating marginal buyers who have relatively low purchasing

power. The gap between minimum wage and decent living standards is caused by not only discrimination, as found in the studies by SMERU (2001) and Bambang and Sudarsono (2004), but also by high turnover rate. [15] Hence, the Labor Unions support the discretionary payment measures taken by the Governor of East Java. However, the unions disagree with the government regulation year 2015 number 78, which through the struggle of the advocates of the Labor Union on the Labor Day, May 1, 2019, resulting in nine points by the Governor of East Java, three of them are revision to government regulation year 2015 number 78 regarding wages. The governor made a recommendation to the Indonesian Ministry of Labor to revise the labor regulations year 2013 number 12 [16] regarding decent living standards to be used as governor's guideline in stipulating Provincial Sectoral Minimum Wages for the year 2020. The governor shall make circular letter to every regency and city in East Java to propose provincial sectoral minimum wages for the year 2020 as the proposal will remain the guidelines for the minimum wages stipulation. It is concluded based on the stipulation by the Governor of East Java that the revision of government regulation year 2015 number 78 includes the survey of decent living standards, which was previously excluded, in the calculating the minimum wage standard for the year 2020. According to three officials of regency/city APINDO,

"The wage discretion in 2019 put a huge burden on the companies, especially the labor-intensive industry, as they have varied capabilities to cope with the standards. There are 98 companies whose request for postponing the minimum wage payment were approved by the Office of Labor and Transmigration of East Java. There were a lot of companies relocated in 2018 since they have to sustain the production process."

The research concludes that the wage discretion influences company relocation to maintain competitiveness instead of avoiding high minimum wage standard. Essentially, the companies are willing to pay for minimum wage as long as they can maintain the competitiveness of their product, hence the efficiency through relocation. The current research yields similar results with previous research by Setyo Pamungkas (2011), which stated that stipulation of the minimum wage by the governor is a form of government intervention in the employment relationship between the laborer and business owners as well as the governor in conduction discretion in fair wage stipulation. [8]

The research is supported by Setiaji & Sudarsono (2004) in their analysis regarding the Influence of Inter-Provincial Wage Differentiation in employment opportunities, which found that the small wage differentiation was useful in accommodating various industrial repayment capabilities.

## CONCLUSION

Based on the result of the research, it is concluded that the wage discretion influences 1) reducing wage disparity significantly; 2) increasing company relocation to maintain competitiveness; 3) the Governor's recommendation to revise Government Regulation year 2015 number 78.

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