

The Impact of the Provincial Minimum Wage (UMP) Policy on the Income of Formal Sector Workers in DKI Jakarta

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Article Info

Keywords :

Community
Income, DKI
Jakarta, Minimum
Wage Policy

Abstract

This study aims to determine the impact of variables on minimum wage income in the DKI Jakarta Province area. Changes to regulations such as Government Regulation No. 51 of 2023 aim to balance worker protection and business sustainability, as well as include workers' economic contributions and decent living standards in the wage formula. This research is a policy effort to systematically improve the minimum wage determination structure in Indonesia, including DKI Jakarta Province. However, the fact is that although the regulation is intended to provide a more systematic framework for calculating and increasing the minimum wage, it is not yet fully effective in guaranteeing an increase in the minimum wage for workers. The regulation should focus on more efficient and transparent policies so that wage policymakers are fairer, more adaptive and sustainable for workers. This research uses a descriptive research method with a quantitative approach from various official documents, reports, journal articles, as well as references related to minimum wage policies and community income. This research shows that the minimum wage income in the city of Jakarta is very influential, especially for the underprivileged. Therefore, to reduce the impact of the minimum wage policy, a policy is needed which can help reduce income in the city of Jakarta.

1. Introduction

Poverty is one of the complex social problems and is the main focus in economic development efforts, especially in urban areas such as DKI Jakarta (Firdausy & Budisetyowati, 2022). In this case, the minimum wage and economic growth have a significant role in influencing poverty rates (Merdikawati & Al Izzati, 2025). In Indonesia, the poverty level is one of the main focuses of the government in economic development policies (Susanto & Wulandari, 2021). Various factors can affect the poverty rate in Indonesia, including the minimum wage and economic growth (Rizky et al., 2022). The minimum wage is one of the important policies implemented by the government to protect the welfare of workers and maintain a balance in the relationship between workers and employers (Yuniarti et al., 2023). This policy aims to ensure that every worker earns a decent income to meet basic living needs (Rahman et al., 2024). In Indonesia, the minimum wage policy is set every year by local governments by considering various factors such as economic conditions, inflation

rates, economic growth, and the needs of the community (Asri et al., 2023).

As the center of government and economy, Jakarta has a very large number of workers and a relatively high level of cost of living compared to other regions in Indonesia. This condition makes the minimum wage policy in Jakarta have a very important role in ensuring the welfare of workers. The DKI Jakarta Provincial Government annually sets the Provincial Minimum Wage (UMP) as the lowest wage standard that must be paid by companies to workers (Central Statistics Agency, 2023).

In practice, the minimum wage policy in Jakarta often raises various debates between workers, employers, and the government (Haryanto & Nugroho, 2022). Workers in general want a significant wage increase in order to be able to meet the increasing needs of life (ILO, 2024). Meanwhile, the employer considers the company's ability to pay wages so that business activities continue to run well (Del Carpio et al., 2023). Therefore, the government has an important role as a mediator to create

fair and balanced policies for both parties (Fitriani & Wahyudi, 2021).

The minimum wage determination policy in Indonesia is also based on various regulations issued by the government. One of the regulations that is an important foundation is Government Regulation Number 36 of 2021 concerning Wages which regulates the wage system, the determination of the minimum wage, and wage protection for workers. The regulation was then updated through (Government Regulation Number 51 of 2023) concerning Wages which provides adjustments to the mechanism for calculating minimum wage increases by taking into account inflation, economic growth, and employment conditions. According to (Ministry of Manpower of the Republic of Indonesia, 2023), With this regulation, local governments have clear guidelines in setting the minimum wage every year, including in Jakarta. This aims to ensure that the minimum wage policy can run fairly, transparently, and be able to improve the welfare of workers without ignoring the sustainability of the business world.

Based on this, the minimum wage income policy in Jakarta is an important issue to be studied because it is directly related to worker welfare, business sustainability, and regional economic stability. The study of this policy is expected to provide a deeper understanding of the role of the government in regulating the wage system and its impact on various parties involved in the world of employment (OECD, 2024; Islam & McGillivray, 2023).

This minimum wage policy is a crucial instrument of the government in protecting the welfare of workers while maintaining economic stability. In Indonesia, wages are regulated through a series of regulations, including Government Regulation Number 51 of 2023 which introduces a new formula for determining the Provincial Minimum Wage (UMP) and the Regency/City Minimum Wage (UMK) based on inflation, economic growth, and Decent Living Needs (KHL). In DKI Jakarta, as the center of the national economy, this policy shows significant dynamics: the increase in UMP will reach 52.79% in 2023 (from IDR

3,208,000 to IDR 4,901,798), followed by 6.05% in 2024 (IDR 5,196,600), with an estimated 5.80% for 2025. (Ministry of Manpower of the Republic of Indonesia, 2024a, 2024b)

This trend contributed to an increase in formal worker income by 28–35% (Sakernas BPS 2023), a decrease in the Open Unemployment Rate (TPT) from 7.1% (2022) to 6.2% (2024), and the Jakarta Human Development Index (HDI) which increased from 79.5 to 80.9. However, the sharp increase also triggered temporary layoffs of up to 2.1% in the labor-intensive MSME sector, with labor demand elasticity of -0.15, and local inflation of +0.8%. This phenomenon reflects the duality of minimum wage policy: the potential for income redistribution (Gini ratio down to 0.42) versus the risk of inequality in the small business sector (Sofa & Eschachasthi, 2024). Previous empirical studies have confirmed that the effectiveness of policies depends on the structure of Jakarta's labor market, which is dominated by services and technology. Nevertheless, the evaluation

comprehensive data on the percentage increase in UMP/MSEs and its implications on income, unemployment, and economic growth are still limited, especially after the implementation of PP 51/2023. (Muhyiddin et al., 2024).

The determination of the minimum wage by the government is based on the aim of providing protection to workers in order to obtain an income that is able to meet the needs of a decent life. However, in practice, there is still a gap between the amount of the Provincial Minimum Wage (UMP) and people's living needs, especially in big cities like Jakarta. As the center of the economy and business activities in Indonesia, Jakarta has a relatively high level of cost of living compared to other regions. The cost of basic necessities, transportation, education, health, and housing in urban areas continues to increase every year. This condition causes some workers who receive the minimum wage to still experience difficulties in meeting their daily needs adequately.

In addition, the increase in the cost of living in Jakarta often occurs faster than the

increase in the minimum wage set by the government. Although the government has taken into account various factors in determining the minimum wage, such as inflation rates, economic growth, and employment conditions, the reality on the ground shows that the living needs of people in big cities continue to increase significantly. This creates a gap between the income that workers receive and the costs that must be incurred to meet their living needs. This condition can have an impact on the decline in the level of welfare of workers, especially for workers who only rely on the minimum wage as the main source of income.

The gap between the minimum wage and the necessities of living can also affect the quality of life of workers and their families. If the income received is not able to meet basic needs, workers have the potential to experience various social and economic problems, such as limited access to education, health, and decent housing. Therefore, the problem of the gap between the minimum wage and the need for a decent living is one of the important issues in wage policy that needs to receive attention from the government so that the main goal of setting the minimum wage, namely improving the welfare of workers, can be achieved optimally (Central Statistics Agency, 2023; Michael P. Todaro & Smith, 2015).

2. Literature Review

Public policy is the government's main tool to manage community life in order to achieve certain goals, including in the employment sector (Peters, 2021). Thomas R. Dye defines public policy as any choice of the government to act or not to act at all (Howlett & Cashore, 2021). In this case, the minimum wage policy is a state intervention to protect workers while maintaining economic stability (Belman & Wolfson, 2023). In Indonesia, wage regulations continue to develop through various regulations, such as Government Regulation Number 51 of 2023 which regulates the formula for determining the minimum wage based on economic conditions and the need for a decent life (Sutrisno & Wibowo, 2024). The policy

reflects the government's commitment to building a fairer and more structured wage system (Organisation for Economic Co-operation and Development [OECD, 2024]).

The minimum wage is the mandatory lower limit that employers must pay to workers as labor protection. According to the International Labour Organization, this policy aims to ensure workers get an adequate income. Practically, the increase in the minimum wage is strongly correlated with an increase in people's incomes. Research in an economics journal reveals that the development of the regional minimum wage (UMR) tends to increase workers' income and welfare, although it also has implications for unemployment. Other studies have also shown a positive and significant influence of the minimum wage on labor absorption in Indonesia, which indicates that this policy is able to encourage higher incomes while opening new jobs.

From the perspective of welfare theory, wage policy plays a crucial role in improving people's quality of life. Amartya Sen emphasized that welfare is not just a measure of income, but the ability of individuals to meet their basic needs. This is in line with research findings that say raising the minimum wage contributes to the progress of human development, as seen from indicators such as the Human Development Index (HDI). That way, the minimum wage policy not only affects the economic side, but also the quality of life of the community holistically.

Even so, the impact of the minimum wage policy is not always entirely positive. Some empirical studies indicate that raising the minimum wage could trigger unemployment and income inequality. Research found that even though average workers' wages are rising, unemployment has the potential to increase in certain situations. Factors such as the structure of the labor market, the elasticity of labor demand, and the capacity of companies are the main keys to the success of this policy.

The success of the policy does not only depend on the content of the policy, but also its implementation. George C. Edwards III's theory of policy implementation states that its success

is influenced by communication, resources, executive attitudes, and bureaucratic structures. In the case of the minimum wage, studies have shown that although policies are well designed, their implementation is still constrained by a lack of oversight and mismatches between policies and the reality on the ground. As a result, the impact on workers' welfare has not been maximized, especially in areas with complicated economic dynamics such as DKI Jakarta.

In conclusion, the minimum wage policy plays a strategic role in increasing people's income and welfare. However, its effectiveness is determined by economic conditions, labor market structure, and the quality of implementation. Therefore, continuous evaluation and improvement of policies are needed so that the goal of improving workers' welfare is optimally achieved.

3. Method

This study applies a quantitative approach through an analytical descriptive method to examine the influence of minimum wage policy on people's income in Jakarta. This choice of quantitative approach is appropriate because the main focus is to unravel the relationship between the Provincial Minimum Wage (UMP) and changes in citizens' income in a structured manner, utilizing existing data. Meanwhile, the descriptive method is used to illustrate the situation of the minimum wage policy and its implications on workers' welfare and income. The data used is sourced from secondary data collected from official institutions, such as the release of the Central Statistics Agency (BPS), local government documents, minimum wage regulations, plus relevant journals and previous studies. This data includes minimum wage trends, people's income patterns, and the recent job market situation in Jakarta.

Data collection is carried out through literature and documentation studies, namely by examining various official documents, reports, journal articles, and references related to minimum wage policies and community income. The data analysis itself relies on

descriptive techniques, where the collected data is processed and interpreted to identify patterns of income changes after the implementation of the minimum wage policy. Theoretically, this research is expected to contribute to the development of science, especially in the field of labor economics and public policy. The results of this study can be an additional academic reference that discusses the influence of the minimum wage policy on people's income.

In addition, this research can also enrich scientific studies related to the relationship between government policies, labor market conditions, and the economic welfare of the community. The data collection method used in this study is through literature and documentation studies. Both methods were chosen because this study uses a quantitative approach that utilizes secondary data from various official and trusted sources. By using this data collection method, this study is expected to obtain accurate, relevant, and accountable data so that the results of the analysis obtained can provide a clear picture of the influence of the minimum wage policy on people's income in Jakarta.

4. Results and Discussion

4.1 Results

This study proves that the minimum wage regulation in DKI Jakarta has a real impact on the income level of citizens, especially official sector employees and the poor. From the analysis of BPS supporting data, records of the world of work, plus previous research, it is clear that the recent UMP escalation has contributed to the increase in the average salary of workers. The increase directly increased the people's spending power, especially to meet essential needs such as food, housing, vehicles, and study matters. As a result, workers now have relevant prospects to achieve a more secure standard of living than before. More than that, the minimum wage regulation is a reliable tool for distributing wealth to reduce the socio-economic gap in cities. It can be seen from the downward trend in the size of salary disparity, such as the Gini index. This wage increase is more beneficial for

the poorest workers than the rich, thus indirectly closing the gap in financial injustice. So, this regulation not only raises individual salaries, but also has a wide effect on general socio-economic stability. However, the findings of this study reveal that the effect of minimum wage regulation is not always good and equal to all branches of the economy. Informal sector workers, such as street vendors, contract workers, or small businesses, rarely feel the direct impact of the UMP increase. The reason is that the informal sector is free from rigid government salary rules. As a result, the gap between official and unofficial labor still persists, and can even widen without a broadly embracing policy.

For entrepreneurs, especially MSMEs, the increase in the minimum wage is often a test in itself. Mediocre capital and minimal productivity make it difficult for some bosses to rearrange production costs due to soaring salaries. In situations like this, it can encourage companies to save costs, such as cutting employees, delaying adding staff, or moving part of operations to informal. This is proof that the regulation of the minimum wage has a complicated effect: the prosperity of workers on the one hand feels the pressure on business continuity on the other.

Based on data from various official sources such as governor's decrees and employment data, the amount of the Provincial Minimum Wage (UMP) in Jakarta in the last 5 years has increased every year.

Table 1. Development of DKI Jakarta UMP in 2021–2025

Year	UMP (Rp)	Increase (%)
2021	4.416.187	3,5%
2022	4.573.845	3,6%
2023	4.901.798	7,2%
2024	5.067.381	3,4%
2025	5.396.761	6,5%

Source: Processed from DKI Jakarta UMP data

From the table, it can be seen that there is a trend of increasing the minimum wage consistently every year. The highest increase occurred in 2023 at 7.2%, while the lowest increase occurred in 2024 at 3.4%. Overall, within five years, UMP Jakarta has experienced

a significant increase as a form of adjustment to inflation and the needs of the community

Furthermore, studies show a correlation between the increase in the minimum wage and the unemployment rate. Although it can broadly trigger growth through rising public consumption, in the short term it is prone to increase unemployment, especially in the intensive labor sector. This is in line with the theory of labor economics which arguably means that salaries exceeding the market equilibrium price can suppress the desire to recruit workers. However, the impact is not always strong and depends on the large economic conditions plus the shape of the local job market.

4.2 Discussion

In terms of welfare, the increase in the minimum wage really has a good impact on the quality of life of workers, but it is not strong enough to close the gap between salaries and decent living costs. Jakarta's high cost of living is a key obstacle to its effectiveness. The cost of primary goods such as housing, movement, health, and school continues to rise sharply every year. So, even though UMP is increasing, the original purchasing power of workers does not always increase commensurately. This shows that minimum wage regulation measures must be coupled with supporting policies, such as rising inflation, basic assistance, and expanding access to public services.

From the implementation manager, this study reveals that the success of the minimum wage regulation is determined by various elements, as described in the theory of policy implementation of George C. Edwards III, namely communication, resources, disposition (attitude of the implementer), and bureaucratic structure. Regarding communication, there are also obstacles in conveying policy information to bosses and workers, so that not everyone fully understands how it works and its objectives. Insufficient labor supervisor resources and ability hinder the company's guarantee of compliance with the minimum wage rules. Then, the disposition shows the rejection of some entrepreneurs who are

burdened by rising labor costs. Meanwhile, the bureaucratic structure, unconvincing cross-agency coordination also affects the smoothness.

The economic character in DKI Jakarta which is dominated by services and the technology industry also affects the effect of minimum wage regulations. In the high-productivity branch, salary increases can be balanced with savings and new creations, without burdening the company too much. Unlike in the dense labor sector with low output, this is a serious burden that can reduce business rivals. So, the impact is diverse and closely followed by each branch of the economy.

In essence, the discussion of this study shows that the regulation of the minimum wage is a crucial means of raising people's income and standard of living, but it cannot go it alone to overcome this economic issue. There must be cooperation in salary policies with others, such as increasing labor output, developing businesses, and protecting the weak. Periodic assessments and revisions are also crucial so that the minimum wage regulation is effective, fair, and lasting in the long term. With that, the main goal is to raise the welfare of workers without sacrificing business viability and be able to achieve the best results.

5. Conclusion

The study concludes that Jakarta's minimum wage policy significantly contributes to increasing people's income, particularly among formal-sector workers and low-income groups. The consistent annual rise in the Provincial Minimum Wage (UMP) strengthens purchasing power, supports the fulfillment of basic needs, and functions as an income redistribution instrument that may reduce socioeconomic inequality. However, its effectiveness remains limited because the minimum wage has not fully kept pace with Jakarta's rising cost of decent living. Its benefits are also uneven, especially for informal-sector workers who are not directly protected by minimum wage regulations. At the same time, wage increases may burden businesses, particularly MSMEs, because higher labor costs

can encourage workforce reductions. Policy implementation also faces several challenges, including weak supervision, limited institutional resources, and insufficient coordination among government, employers, and workers. Therefore, the minimum wage policy cannot independently solve workers' welfare problems and must be supported by broader and more integrated measures.

The government should formulate a more adaptive wage policy by considering inflation, economic growth, and the actual cost of decent living in urban areas. Supporting policies should include inflation control, subsidies for basic necessities, and improved access to healthcare, education, and housing. Protection for informal workers should also be expanded through economic empowerment and labor formalization programs. To help MSMEs comply without reducing employment, the government should provide incentives, training, and productivity assistance. Labor inspection must be strengthened by improving the capacity of supervisory institutions. Finally, regular evaluation, transparency, and stronger communication among all stakeholders are essential to ensure that minimum wage policies remain fair, effective, relevant, and sustainable in improving public welfare. These measures are expected to balance worker protection with business sustainability, minimize employment risks, extend welfare benefits across sectors, and ensure wage adjustments reflect Jakarta's changing economic and social conditions more accurately.

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