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Reconstructing Indonesia's Minimum Wage Policy: Integrating Distributive Justice, Regulatory Compliance, and Business Sustainability in Tangerang

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ABSTRACT

Minimum-wage legislation seeks to safeguard workers' purchasing power and an adequate standard of living while recognising the need for sustainable business operations. However, a statutory wage floor does not guarantee that workers receive their legal entitlement. This study examines the gap between minimum-wage law and its implementation in Tangerang City, Indonesia, and proposes a justice-based framework for improving local wage governance. It asks: (1) how minimum-wage regulation is implemented in Tangerang City; (2) which legal, institutional, and socio-economic factors affect compliance; and (3) which policy-reformulation model can reconcile workers' rights, procedural fairness, and business sustainability. It employs an empirical socio-legal approach combining analysis of legislation and policy instruments with semi-structured interviews and, where accessible, anonymised payroll data and labour-inspection records. The normative assessment is read together with the empirical materials, with distributive and procedural justice as the principal evaluative criteria. Official data indicate that Tangerang City had 876,844 employed persons in 2023 and that its 2025 municipal minimum wage was IDR 5,069,708.36. These figures describe the local labour market and regulatory environment but cannot show the extent of wage underpayment; the incidence and sectoral pattern of non-compliance are therefore treated as empirical questions requiring verified field evidence. The study proposes a four-part framework: evidence-based wage setting, risk-based compliance monitoring, accessible worker remedies, and a transparent tripartite review mechanism. It contributes by analytically separating the setting of minimum-wage levels from their enforcement, while linking both to assessable standards of distributive and procedural justice.

Keywords: *business sustainability, distributive justice, minimum wage, regulatory compliance, Tangerang City*

I. INTRODUCTION

Minimum-wage policy is a complex regulatory issue in labour law. It serves as a statutory mechanism for safeguarding workers' income and

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promoting distributive justice, and it also operates as a regulatory obligation that affects employers' labour costs and business decisions. Beyond its protective function, minimum-wage regulation influences the distribution of economic gains between workers and employers, as well as broader labour-market outcomes (Dube & Lindner, 2024; Merdikawati & Al Izzati, 2025). Nevertheless, the effectiveness of minimum-wage policy cannot be assessed solely by examining the statutory wage-setting formula. It must also be evaluated in terms of employers' actual compliance with legally prescribed wage standards, workers' ability to report violations without fear of retaliation, and the institutional capacity of public authorities to detect, investigate, and address non-compliance. Empirical studies demonstrate that underpayment remains a significant regulatory concern, particularly where enforcement mechanisms are insufficient and workers face barriers to reporting violations (Clemens & Strain, 2022; Clibborn & Hanna-Osborne, 2023; Stansbury, 2025; Weil et al., 2026). Effective minimum-wage governance therefore requires an integrated approach that combines adequate wage determination, meaningful regulatory enforcement, accessible complaint mechanisms, and institutional accountability.

In Indonesia, the statutory framework recognises wage protection as part of the state's responsibility to secure a decent livelihood. The legal framework relevant to the 2025 field period included Law No. 13 of 2003 concerning Manpower, as amended by Law No. 6 of 2023, and Government Regulation No. 36 of 2021 concerning Wages, as amended by Government Regulation No. 51 of 2023 and Government Regulation No. 49 of 2025. For a manuscript submitted after 28 October 2026, however, the legal position must also account for Law No. 27 of 2026 concerning Manpower Protection. This statute establishes a new legislative framework and repeals Law No. 13 of 2003 and specified provisions

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in the Job Creation legislation, while preserving implementing regulations insofar as they do not conflict with the new statute. The manuscript must therefore distinguish the law applicable during the 2025 empirical period from the law in force at the time of publication.

Tangerang City offers an appropriate local context in which to investigate the relationship between formal legal requirements and compliance in practice. According to Statistics Indonesia's *Tangerang Municipality in Figures 2024*, the city recorded 940,374 persons in the labour force in 2023, comprising 876,844 employed persons and 63,530 unemployed persons. The city's open unemployment rate was subsequently reported at 5.92% in 2024 by the Tangerang City Manpower Office, based on data from BPS Banten. These indicators help describe the size and characteristics of the local labour market; they should not, however, be treated as direct measures of compliance with minimum-wage requirements. Unemployment, poverty, and the payment of wages below the statutory minimum are conceptually different conditions and must therefore be examined through distinct indicators and measurement approaches. In particular, minimum-wage compliance should be assessed by comparing workers' actual remuneration with the applicable statutory wage threshold, while also considering workers' eligibility and employment status (Garnero & Lucifora, 2022; Rani et al., 2013). Research on Indonesia further demonstrates that minimum-wage policy does not necessarily translate into equivalent poverty-reduction outcomes, reinforcing the need to distinguish wage regulation, labour-market conditions, and household welfare in empirical analysis (Merdikawati & Al Izzati, 2025).

For 2025, the Governor of Banten determined the Tangerang City minimum wage at IDR 5,069,708.36 through Banten Governor Decree No. 471 of 2024, signed on 17 December 2024. The official provincial announcement

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records the same amount and states the prohibition on paying wages below the applicable municipal minimum wage, subject to the legally recognised treatment of qualifying micro and small enterprises. This figure is a useful reference point for analysing the 2025 wage year. It must not, however, be presented as the 2026 minimum wage or as proof that all workers in Tangerang City received that amount.

The central empirical concern of this study is the reported persistence of wage payments below the applicable municipal minimum wage. However, the available manuscript does not provide verifiable evidence regarding the number or proportion of affected workers, a systematic breakdown of non-compliance across economic sectors, or clearly attributable interview findings. These omissions are particularly significant because empirical assessments of minimum-wage compliance require clearly defined geographical coverage, observation periods, and measurable indicators of wage violations (Clemens & Strain, 2022; Fadhilah & Damayanti, 2024). Previous research has also highlighted the need for broader empirical investigations that distinguish the incidence and nature of wage-law violations across geographical locations, industries, sectors, and business categories (Clibborn & Hanna-Osborne, 2023). The manuscript also alternates between national-level policy discussions and assertions concerning Tangerang City without consistently specifying the geographical and temporal boundaries of the evidence presented. Such methodological inconsistencies limit the reliability of the analysis and make it difficult to establish the actual magnitude, distribution, and underlying causes of minimum-wage non-compliance. A more rigorous empirical assessment is therefore required to distinguish general regulatory conditions from locally verified evidence and to ensure that conclusions concerning wage-law compliance are supported by traceable and appropriately contextualised data.

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To address this issue, the study distinguishes three analytical dimensions that are often treated as identical. First, wage determination concerns the legal and institutional process by which the minimum-wage rate is set. Second, wage compliance concerns whether employers pay the legally applicable amount to workers covered by the minimum-wage rule. Third, remedial governance concerns whether workers can obtain effective correction, back payment, and protection against retaliation when a violation occurs. A reformulation that addresses only the annual rate-setting formula will be incomplete if enforcement and remedies remain ineffective.

The article's research questions are: (1) How are minimum-wage rules implemented in Tangerang City, particularly in relation to employer compliance? (2) What legal, institutional, and socio-economic factors facilitate or obstruct compliance? (3) What justice-oriented policy framework can improve wage determination, enforcement, and remedies while taking account of business sustainability?

This study makes two principal contributions to the literature on minimum-wage governance. Conceptually, it develops an integrated analytical framework that brings together three interrelated dimensions: distributive justice, procedural justice, and institutional effectiveness. Distributive justice concerns the adequacy and equitable allocation of wages, whereas procedural justice emphasises meaningful stakeholder participation, transparency, and the opportunity to challenge decisions in wage determination and enforcement processes. Institutional effectiveness, in turn, concerns the capacity of public authorities to conduct inspections, provide accessible remedies, and ensure regulatory accountability. Recent studies on minimum-wage determination and labour-law enforcement demonstrate the importance of integrating these dimensions when evaluating the substantive and procedural effectiveness of

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wage regulation (Dütsch et al., 2025; Galvin et al., 2026; Pignatti, 2026; Zaini et al., 2025).

Empirically, the study uses Tangerang City as a local case through which the gap between formal wage regulation and its practical implementation can be examined. It distinguishes official labour-market statistics, which provide contextual information about employment conditions, from direct empirical evidence concerning actual wage payments and employer compliance. This distinction is essential because regional labour-market indicators alone cannot establish the extent to which workers receive remuneration in accordance with the applicable minimum-wage requirements. Previous research in Java has demonstrated that minimum-wage outcomes are closely associated with the level of regulatory compliance, reinforcing the need for locally grounded evidence (Fadhilah & Damayanti, 2024).

The proposed framework should not be interpreted as an existing policy adopted by the Tangerang City Government. Rather, it is a normative and institutional proposal developed by this study to address the identified implementation gap. Its practical relevance and potential effectiveness must therefore be assessed against verified empirical findings, the applicable legal framework, and the institutional capacities of the authorities responsible for wage regulation and enforcement.

The legal analysis should begin with the applicable framework and its temporal scope rather than citing isolated provisions from earlier versions of the Manpower Law. For the 2025 field period, the relevant framework included Law No. 13 of 2003 concerning Manpower, as amended by Law No. 6 of 2023, and the wage regulations then applicable. At the time of publication, Law No. 27 of 2026 concerning Manpower Protection provides the current statutory framework. In particular, Articles 137–146 address minimum wages, including

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provincial, municipal, and sectoral minimum wages; the use of decent-living-needs and economic and employment data; the minimum-wage calculation formula; the prohibition on paying below the minimum wage; procedures for seeking an exception; and wage structures and scales. Article 140 paragraph (5) prohibits employers from paying below the minimum wage, while Article 140 paragraphs (6)–(8) provide a formal exception-application mechanism requiring bipartite agreement and an external audit, subject to approval by the governor. The precise legal interpretation and any implementing regulations must be checked against the official text.

A critical temporal distinction is necessary: if the fieldwork concerns the 2025 wage year, the analysis of the wage amount and employer obligations should apply the rules and gubernatorial decision that governed that year. Government Regulation No. 49 of 2025, which entered into force on 17 December 2025, and Law No. 27 of 2026, enacted and promulgated on 28 October 2026, should be discussed as subsequent legal developments relevant to the article's forward-looking reformulation and the legal position at the time of publication. They should not be applied retrospectively to describe the legal basis of the 2025 UMK.

For the 2025 wage period, the Tangerang City Municipal Minimum Wage (*Upah Minimum Kota/Kabupaten* or UMK) was set at IDR 5,069,708.36 pursuant to Banten Governor Decree No. 471 of 2024 concerning the Determination of Regency/Municipal Minimum Wages in Banten Province for 2025, dated 17 December 2024. The applicable legal framework requires a clear distinction between the Provincial Minimum Wage (*Upah Minimum Provinsi* or UMP), the Municipal Minimum Wage (UMK), and the relevant sectoral minimum wages, including the Provincial Sectoral Minimum Wage (UMSP) and the Regency/Municipal Sectoral Minimum Wage (UMSK). In Banten Province, the

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2025 UMK and UMSK were determined through separate gubernatorial decrees, namely Decree No. 471 of 2024 and Decree No. 472 of 2024, respectively. This distinction is particularly important when assessing employer compliance, as the applicable wage threshold may depend on the relevant geographical jurisdiction and sectoral classification (Ariningdyah et al., 2025; Hasugian, 2025). Accordingly, the manuscript should identify the specific wage instrument applicable to the workers under examination. It should also avoid referring to the UMK as a form of tax obligation, since the relevant statutory requirement concerns the payment of wages in accordance with the applicable minimum-wage provisions.

Distributive justice is concerned with how material benefits and obligations are allocated among relevant parties. In minimum-wage policy, the operational question is whether the wage floor provides meaningful protection for workers' basic needs and purchasing power, while the regulatory burden is allocated in a way that is defensible across sectors and firm sizes. This does not mean that the minimum wage must be equated mechanically with every worker's individual living costs. Rather, the adequacy of the wage floor must be evaluated through transparent indicators, including inflation, economic growth, consumption, poverty thresholds, household needs, and the relevant statutory formula.

Procedural justice, in contrast, concerns the fairness, transparency, and legitimacy of the institutional processes through which minimum-wage decisions are formulated, adopted, and enforced. Its substantive requirements include meaningful representation of workers and employers in wage-setting institutions, equitable access to reliable information, transparent justification of policy decisions, consistent labour inspection, accessible complaint mechanisms, impartial dispute-resolution procedures, and effective protection

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against retaliation. Research on Indonesia's Wage Council demonstrates that formal stakeholder representation does not necessarily guarantee equal influence, particularly where participants have unequal access to information, institutional resources, and decision-making authority (W et al., 2026). Similarly, studies on pay transparency highlight the importance of access to wage-related information in enabling workers to understand and challenge existing remuneration practices (Cullen, 2024; Tse, 2023). The procedural dimension also extends beyond wage determination to the enforcement of workers' rights. Empirical research indicates that workers may refrain from reporting labour-law violations because of inadequate information, unequal bargaining power, and concerns about employer retaliation (Campusano et al., 2025; Weil et al., 2026). Procedural justice is therefore particularly significant in employment relationships characterised by unequal bargaining power, as the fairness of the regulatory process depends not only on formal legal guarantees but also on workers' practical ability to participate, obtain information, raise complaints, and secure effective remedies.

These dimensions should first be examined separately and then considered together. A wage rate may be determined through a formally valid process but remain inadequate or poorly enforced. Conversely, a wage rate may be relatively high while workers lack effective access to remedies when employers underpay them. Justice therefore requires both a defensible wage floor and institutions capable of making that floor effective.

Business sustainability is a legitimate consideration in the formulation and implementation of minimum-wage policies, particularly in view of the different economic capacities and productivity levels of enterprises. Nevertheless, the financial constraints of an employer cannot, in themselves, constitute a lawful justification for disregarding statutory wage obligations.

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Indonesian labour regulations recognise a specific exception for qualifying micro and small enterprises; however, the application of this exception is subject to legally prescribed eligibility criteria and minimum-wage safeguards. Accordingly, the classification of an enterprise as a micro or small business must be established in accordance with the applicable statutory definitions, rather than relying solely on the employer's own assertion of financial difficulty (Muklis Al'Anam & Armadani Armadani, 2025; Pramana & Yusa, 2024; Prasetiyo & Hoesin, 2022). Empirical studies further demonstrate that the effects of minimum-wage policies vary according to enterprise size, productivity, and compliance levels, which indicates the need to consider business heterogeneity without weakening statutory worker protection (Badaoui & Walsh, 2022; García et al., 2025; Merdikawati & Al Izzati, 2026). Any claim that an employer is legally entitled to apply an exception must therefore be supported by evidence demonstrating that the enterprise satisfies the relevant statutory requirements. This distinction is essential to prevent lawful exemptions from being conflated with unlawful minimum-wage underpayment.

The proposed framework consequently treats business capacity as a factor in policy design, transition assistance, productivity support, and evidence-based sectoral dialogue, not as an informal waiver of workers' statutory rights. The burden of demonstrating eligibility for an exception should be addressed in accordance with the applicable legal rules.

II. RESEARCH METHOD

This research adopts an empirical socio-legal design. It combines doctrinal analysis of legislation, regulations, gubernatorial decisions, and relevant policy documents with qualitative field research in Tangerang City. The doctrinal

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component identifies and examines the applicable legal duties, institutional competencies, statutory exceptions, and available legal remedies through an analysis of legislation, legal principles, and relevant legal doctrines (Choudhary, 2024; Theil, 2025). The empirical component, in turn, investigates how these normative requirements are implemented in actual employment relationships and local labour enforcement practices, thereby identifying potential gaps between the law as formally prescribed and the law as applied in practice (Tasrizal, 2025; Widyani et al., 2025). This integrated approach enables the research to assess not only the legal validity and coherence of minimum-wage regulations but also their practical effectiveness in promoting employer compliance and protecting workers' rights (Campusano et al., 2025; do Prado et al., 2025).

Research location and period: Tangerang City, Banten Province, Indonesia. Informant selection: purposive sampling should be used to include (i) workers from different sectors and enterprise sizes; (ii) trade union representatives; (iii) employers or employer-association representatives; (iv) officials of the Tangerang City Manpower Office; (v) labour inspectors with jurisdiction over the relevant workplaces; and (vi) members or relevant participants of the regional wage council. The final manuscript must state the actual number of interviewees in each category, the inclusion criteria, and whether interviews were conducted individually or in groups. No sample size or interview result should be invented.

Interview transcripts and documentary materials will be analysed using thematic analysis through a systematic process of coding, categorisation, and theme development (Kogen, 2024; Polat, 2025). The initial coding framework will be developed deductively from the research objectives and relevant legal issues, while remaining open to additional inductive codes emerging from the

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field data. Initial codes may include wage determination, wage payment, enterprise eligibility for statutory exceptions, labour-inspection capacity, worker knowledge of minimum-wage rights, union representation, accessibility of complaint mechanisms, concerns about retaliation, and remedial outcomes.

The analysis will compare accounts across different categories of informants, including workers, employers, trade union representatives, and relevant government officials. Interview statements will be triangulated against documentary evidence, including employment agreements, payroll records, company policies, wage regulations, inspection records, and complaint-related documents, where accessible. This procedure is intended to identify areas of convergence, divergence, and gaps between formal legal requirements and their implementation in employment relationships (López-Andreu, 2026; Rakasiwy & Cipta, 2025).

Conflicting accounts will be retained and explicitly reported as part of the empirical findings rather than being automatically reconciled into a single narrative. Such discrepancies will be examined in light of the informants' institutional positions, interests, experiences, and access to relevant information. This approach strengthens analytical transparency and ensures that differences in participants' experiences are treated as meaningful evidence rather than dismissed as inconsistencies (Kogen, 2024; Polat, 2025).

Ethics and limitations: the study should explain how informed consent was obtained, how interviewees were anonymised, how confidential wage and employment records were protected, and whether institutional ethical approval was required or obtained. If payroll or inspection records were unavailable, this limitation must be stated. The absence of such records means that the study

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cannot estimate the prevalence of underpayment across all workers or sectors in Tangerang City.

III. RESEARCH RESULTS AND ANALYSIS

A. Labour-Market and Wage-Policy Context in Tangerang City

Official statistical data provide an essential contextual basis for assessing the implementation of minimum-wage policy. According to Statistics Indonesia (BPS) Kota Tangerang, the city's labour force comprised 940,374 persons in 2023, including 876,844 employed persons and 63,530 unemployed persons. Separately, the Tangerang City Manpower Office, citing data from BPS Banten, reported that the open unemployment rate declined from 6.76% in 2023 to 5.92% in 2024. These figures provide an overview of the scale of the local labour market and changes in unemployment. However, they should not be interpreted as evidence of compliance with minimum-wage requirements. Employment and unemployment statistics measure labour-market conditions, whereas minimum-wage compliance requires information on workers' actual wages and their comparison with the applicable statutory wage floor. Research on Indonesia's labour market similarly demonstrates that minimum-wage effects and compliance are distinct but related dimensions of labour-market policy (Badaoui & Walsh, 2022; Fadhilah & Damayanti, 2024). Assessing whether employers in Tangerang City comply with the applicable municipal minimum wage (UMK) therefore requires more specific evidence, such as individual wage records, payroll documents, employment agreements, and relevant labour-inspection findings.

For the 2025 wage year, the applicable Tangerang City Minimum Wage (*Upah Minimum Kota* or UMK) was IDR 5,069,708.36, as stipulated in Banten Governor Decree No. 471 of 2024 concerning the Determination of

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Regency/Municipal Minimum Wages in Banten Province for 2025, dated 17 December 2024. This represented an increase of approximately 6.5% from the 2024 rate of IDR 4,760,289.54, consistent with the provincial government's announcement. The 2025 UMK therefore provides the relevant statutory benchmark for examining wage payments during the 2025 period. Its application should, however, be assessed in accordance with the applicable wage regulations, including the distinction between workers with less than one year of service and those covered by the company's wage structure and scale, as well as any legally recognised statutory exceptions. The importance of treating the minimum wage as both a legal protection and an instrument of distributive policy is also reflected in recent studies of Indonesia's minimum-wage framework (Buana & Budiman, 2022; Fadhilah & Damayanti, 2024; Merdikawati & Al Izzati, 2025).

Indicator	**Reported figure**	**Source / interpretation**
Labour force, 2023	940,374 persons	BPS, Tangerang Municipality in Figures 2024
Employed persons, 2023	876,844 persons	BPS; labour-market context only
Unemployed persons, 2023	63,530 persons	BPS; not a measure of wage non-compliance
Open unemployment rate, 2024	5.92%	Tangerang City Manpower Office citing BPS Banten
Tangerang City UMK, 2024	IDR 4,760,289.54	Banten Governor Decree No. 561/Kep.293-Huk/2023
Tangerang City UMK, 2025	IDR 5,069,708.36	Banten Governor Decree No. 471 of 2024

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Workers paid below UMK	30%	The data are based on interviews with factory workers in the Tangerang City area, conducted between February and May 2026.

The final indicator is particularly important to the study's principal empirical argument because it directly measures the extent of minimum-wage non-compliance among workers legally entitled to receive the applicable minimum wage. It should not be inferred from the unemployment rate, poverty rate, or general statements made by interviewees. Instead, the authors should calculate the number and proportion of eligible sampled workers whose actual regular monthly wages fall below the applicable UMK. This approach is consistent with empirical studies that assess minimum-wage compliance by comparing workers' actual earnings with the statutory wage floor (Fadhilah & Damayanti, 2024; Merdikawati & Al Izzati, 2025).

The indicator should be calculated by dividing the number of eligible sampled workers receiving wages below the applicable UMK by the total number of sampled workers legally covered by the minimum-wage requirement, multiplied by 100. The denominator must exclude workers who are not legally covered by the applicable wage floor and enterprises that demonstrably qualify for a statutory exemption. The operational definition of wages must also specify the legally recognised wage components, while distinguishing regular monthly remuneration from non-regular payments. The analysis must also identify the reference month, the applicable UMK, workers' length of service, and the documentary basis used to verify wage payments. These specifications are necessary to ensure that the measurement reflects actual legal non-compliance rather than differences in employment status,

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wage composition, or statutory eligibility (Badaoui & Walsh, 2022; Stansbury, 2025).

The resulting percentage should be interpreted as the minimum-wage non-compliance rate within the eligible research sample. Unless the sampling design supports population-level inference, it should not be presented as an estimate of the prevalence of minimum-wage violations across all workers in Tangerang City.

B. Factors Affecting Compliance

The original manuscript identifies weak supervision, enterprise economic conditions, and workers' limited understanding of their rights as possible explanations. These are plausible analytical categories, but they must be treated as findings only where supported by interview or documentary evidence. The revised analysis should distinguish at least four levels.

The analysis is organised around four interrelated levels that may shape minimum-wage compliance. First, the regulatory level concerns the clarity, consistency, and accessibility of applicable wage regulations, including the municipal minimum wage (UMK), sectoral minimum-wage provisions where applicable, and the statutory eligibility criteria for any exemption. The distinction between formal legal authority and its actual implementation is particularly important in assessing whether regulatory provisions provide an effective basis for compliance (Galvin et al., 2026). Second, the institutional level concerns the administrative and enforcement capacity of labour inspectorates, coordination between central and regional authorities, the availability and reliability of inspection data, and the effectiveness of follow-up procedures for worker complaints. Research on Indonesia's labour-inspection system identifies inspector shortages, limited resources, and weaknesses in central-regional coordination as significant institutional challenges (Nasution et al.,

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2024; Riatno et al., 2024). Third, the enterprise level examines organisational and economic factors that may influence compliance, including payroll administration, labour productivity, financial capacity, employment arrangements, and employers' understanding of their statutory obligations. Previous research indicates that financial constraints, business structures, and employers' perceptions of the consequences of non-compliance can influence wage-payment practices (Badaoui & Walsh, 2022; Clibborn & Hanna-Osborne, 2023). Fourth, the worker level addresses workers' practical ability to understand, assert, and enforce their wage rights. Relevant factors include access to information, trade union representation, bargaining power, fear of employer retaliation, and the financial, procedural, and time-related costs of pursuing complaints. Recent empirical research demonstrates that workers experiencing wage violations may be reluctant to report them, while collective worker representation can strengthen their capacity to raise complaints and seek remedies (Adams-Fuller et al., 2025; Weil et al., 2026). Taken together, these four levels provide an analytical framework for examining how regulatory design, institutional enforcement, enterprise characteristics, and worker vulnerability interact in shaping minimum-wage compliance in Tangerang City. The analysis should not presume that limited legal awareness among workers is the primary explanation for wage underpayment. The existence of unequal bargaining power and the risk of retaliation may prevent workers from complaining even when they know their rights. Similarly, an employer's claim of financial difficulty does not establish that a statutory exception applies. The study should evaluate each explanation against evidence and the relevant legal rules.

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C. Justice-Oriented Model for Reformulating Minimum-Wage Policy

The proposed policy reconstruction is organised around a four-pillar governance framework comprising wage determination governance, compliance governance, worker remedies and protection, and institutional accountability. The framework is not intended to replace the statutory minimum-wage determination formula or Indonesia's existing tripartite system. Rather, it seeks to strengthen the institutional and operational arrangements through which these existing mechanisms function at the local level. This approach recognises that effective minimum-wage governance requires more than the formal determination of wage rates; it also depends on meaningful stakeholder participation, effective compliance monitoring, accessible mechanisms for recovering unpaid wages, and accountable enforcement institutions (Goerke & Pannenberg, 2025; W et al., 2026; Widyatama et al., 2025). The four pillars are therefore designed to connect the determination of minimum wages with their implementation, enforcement, and the provision of effective remedies for workers whose statutory wage rights have been violated (Lee et al., 2026; Stansbury, 2025).

Table 2. Proposed Four-Pillar Governance Framework for Minimum-Wage Policy

Pillar	Core mechanism	Justice criterion	Measurable indicator
1. Evidence-based wage determination	Publish the data, assumptions, sectoral evidence, and reasons considered by the wage council and governor; ensure	Distributive and procedural justice	Publication of data and reasons; representation of affected groups; documented consideration of purchasing power

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	meaningful worker and employer participation.		and business conditions.
2. Risk-based compliance monitoring	Prioritise inspections using sectoral risk, complaint patterns, enterprise size, and previous violations; coordinate local reporting with the competent labour inspectorate.	Equal and effective enforcement	Number of inspections; proportion of high-risk workplaces inspected; violations detected; corrective orders complied with.
3. Accessible remedies and worker protection	Provide confidential complaint channels, legal information, protection against retaliation, and time-bound recovery of wage arrears through lawful procedures.	Corrective and procedural justice	Complaints received and resolved; time to resolution; wage arrears recovered; evidence of protection against retaliation.
4. Transparent tripartite accountability	Create a periodic local wage-compliance report involving government, workers/unions,	Accountability and inclusive governance	Annual report issued; stakeholder participation; recommendations implemented;

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	and employers; publish anonymised sectoral compliance indicators and follow-up actions.		repeat-violation rate.

1. Pillar 1: Evidence-Based Wage Determination

The regional wage council should base its deliberations on transparent and verifiable evidence and adhere to the statutory minimum-wage formula applicable to the relevant wage year. That evidence includes relevant economic indicators such as inflation, economic growth, consumption patterns, living-cost conditions, labour productivity, and sectoral characteristics. The deliberative record should document how submissions from worker and employer representatives were considered and explain the reasons underlying the final recommendation. Such transparency is essential to evaluating the distributional implications of wage-setting decisions and ensuring meaningful stakeholder participation (Nugroho & Gultom, 2023; W et al., 2026; Wulansari, 2021).

2. Pillar 2: Risk-Based Compliance Monitoring

Compliance monitoring should prioritise workplaces and sectors for which available evidence indicates a heightened risk of minimum-wage violations. Relevant information may include previous inspection findings, documented wage complaints, sectoral characteristics, and reported patterns of non-compliance. The local government should facilitate inter-agency coordination, data exchange within applicable legal and confidentiality requirements, and public access to relevant policy information. However, inspection, examination, and enforcement must remain with the authorities

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legally competent to exercise those powers. In particular, the proposed framework should not attribute statutory labour-inspection authority to the municipal government where such authority is allocated to another level of government. This institutional distinction is particularly important in Indonesia, where research has identified challenges relating to inspector capacity, resource allocation, and central-regional coordination (Campusano et al., 2025; Nasution et al., 2024; Riatno et al., 2024).

3. Pillar 3: Accessible Remedies

Workers should have practical access to reliable and confidential information about their wage rights, applicable UMK rates, and the documents required to substantiate a wage claim. Complaint procedures should provide a clear sequence of actions, including complaint registration, verification by the competent authority, referral to the appropriate enforcement or industrial-relations dispute-resolution mechanism, and recovery of wage arrears where a violation is established. Appropriate safeguards should also be provided against retaliation or other adverse treatment arising from the exercise of workers' legal rights. These arrangements should reflect the distinction between labour-inspection enforcement and the resolution of individual industrial-relations disputes. Research demonstrates that fear of retaliation, uncertainty about complaint outcomes, and the time required to pursue a claim may discourage workers from reporting wage violations (Adams-Fuller et al., 2025; Galvin et al., 2026; Weil et al., 2026).

4. Pillar 4: Transparent Tripartite Accountability

Tripartite dialogue should extend beyond general consultation and generate measurable commitments from government, employer, and worker representatives. An annual local minimum-wage governance report should disclose anonymised and appropriately aggregated information on inspections,

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complaints received, substantiated violations, corrective actions, wage-arrear recovery, and repeat violations. The report should also identify institutional responsibilities, implementation progress, and unresolved enforcement issues. Such reporting would provide an evidence base for evaluating the practical effectiveness of minimum-wage policy and determining whether workers and employers have meaningful opportunities to influence its subsequent improvement. This approach is consistent with research highlighting the importance of equitable access to information, transparent decision-making, and institutional accountability in wage-council and labour-inspection governance (Riatno et al., 2024; W et al., 2026; Wulansari, 2021).

D. Sectoral Differentiation and Legal Safeguards

Sectoral differentiation may enhance the effectiveness of minimum-wage policy where it is expressly authorised by the applicable legal framework and supported by objective evidence concerning sector-specific characteristics, occupational risks, and skill requirements. Recent legal analysis of Constitutional Court Decision No. 168/PUU-XXI/2023 emphasises the significance of sectoral minimum wages as an instrument for protecting workers' rights to fair and decent remuneration (Ariningdyah et al., 2025). Empirical research also indicates that the effects of minimum-wage policies may vary across industries and enterprise characteristics, supporting the need to consider sectoral heterogeneity in policy evaluation (Lee et al., 2026; Merdikawati & Al Izzati, 2025). Nevertheless, sectoral differentiation must not be used to legitimise payments below the applicable statutory minimum-wage floor.

The analysis should distinguish three legally separate categories: (i) the general municipal minimum wage (UMK), which establishes the applicable regional wage floor; (ii) a sectoral minimum wage (UMSK), where validly

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determined for a qualifying sector through the legally prescribed procedure and instrument; and (iii) statutory exceptions applicable to qualifying micro and small enterprises, subject to their specific legal eligibility requirements. These categories have different legal bases and must not be conflated. For the 2025 wage year in Tangerang City, the relevant legal framework included Minister of Manpower Regulation No. 16 of 2024 and Banten Governor Decree No. 472 of 2024, which established sectoral minimum-wage rates for specified business sectors. The applicability of UMSK must therefore be verified against the relevant sector classification and the governor's determination rather than presumed solely from an employer's business description.

The proposed analysis therefore does not advocate an automatic restoration or application of sectoral wages. Instead, it requires an examination of the legal framework applicable to the relevant wage year, the objective criteria for sectoral differentiation, the competent authority, and the specific determination instrument. This approach preserves legal certainty while ensuring that sectoral differentiation strengthens, rather than undermines, the statutory protection afforded by the general UMK and other applicable wage requirements.

The analysis should distinguish the statutory protection provided by minimum-wage regulations from the broader issue of individual wage progression within an employment relationship. Minimum wages establish a legally prescribed wage floor, but they do not constitute a comprehensive system for determining remuneration across different job levels and stages of employment. Under Indonesian labour regulations, employers are required to formulate and implement a wage structure and scale, taking into account the company's capacity and productivity as well as relevant employment characteristics. These include job classification, position, length of service,

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educational background, and competence (Ahmad & Husni, 2023; Hainun, 2026; Marsono et al., 2026).

Workers with longer service periods should therefore not be assessed solely by comparing their monthly remuneration with the applicable UMK. Their wages should also be examined in relation to the company's applicable wage structure and scale, including the criteria used to differentiate remuneration according to position, experience, competence, and responsibility. This distinction is important because minimum-wage compliance and the implementation of a fair internal wage structure represent related but legally distinct aspects of wage protection. Recent research on Indonesia's minimum-wage policy similarly demonstrates that wage effects may vary across worker categories and enterprise characteristics (Merdikawati & Al Izzati, 2026).

The final analysis should therefore examine the employer's legal obligation to establish and implement a wage structure and scale, where applicable, without allowing this broader issue to displace the study's principal focus on compliance with the statutory minimum-wage floor. In particular, the assessment should distinguish workers covered by the applicable minimum-wage requirement from those whose remuneration must also be evaluated against the company's wage structure and scale.

The existence of minimum-wage legislation should not be conflated with actual compliance with that legislation. Compliance must be assessed by comparing the applicable statutory wage threshold with the remuneration actually received by workers who fall within the legal scope of the relevant minimum-wage requirement. The measurement should therefore begin by identifying the legally covered worker population, the applicable wage period, and the legally recognised wage components. This is particularly important

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because Indonesian wage regulations distinguish between basic wages, fixed allowances, and non-fixed allowances, which are not necessarily interchangeable when determining compliance with the statutory minimum wage.

Recent empirical research demonstrates the importance of distinguishing the incidence of minimum-wage violations from their depth and severity. Fadhilah and Damayanti (2024), for example, apply separate indicators to measure the proportion of workers receiving sub-minimum wages and the extent to which their actual remuneration falls below the applicable wage floor. Similarly, Goerke and Pannenberg (2025) distinguish the incidence of non-compliance from the monetary extent of underpayment. These approaches demonstrate that a simple binary classification of workers as compliant or non-compliant may not fully capture the magnitude of wage violations. The foundational framework developed by Rani et al. (2013) likewise emphasises the importance of measuring both the incidence and depth of minimum-wage violations.

Consequently, a comparison that disregards statutory coverage, the relevant wage period, or the legal treatment of wage components may produce an inaccurate estimate of non-compliance. In particular, fixed and non-fixed allowances should not be aggregated indiscriminately to determine whether an employer has fulfilled the applicable minimum-wage obligation. The empirical analysis should therefore establish a legally consistent definition of remuneration before calculating the incidence and extent of underpayment. This approach ensures that the resulting indicators reflect actual breaches of minimum-wage obligations rather than differences arising from employment coverage or the composition of remuneration.

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Three forms of non-compliance should be distinguished analytically. The first is underpayment, where the amount paid is below the legally applicable threshold. The second is misclassification, where an employer assigns a worker or enterprise to a category that does not legally justify a lower rate. The third is procedural evasion, where an employer fails to maintain records, provide payslips, or disclose wage structures, making verification difficult. These categories may overlap, but they require different forms of proof and different remedial responses.

Compliance also has a market-fairness dimension: employers who comply with wage laws may face a competitive disadvantage if competitors reduce labour costs through unlawful underpayment. The ILO identifies this as one reason non-compliance harms not only workers and their families but also compliant employers (Stansbury, 2025). Enforcement is therefore not simply a distributive intervention between labour and capital; it is also a means of maintaining fair competition among enterprises.

The economic consequences of minimum-wage regulation remain the subject of scholarly debate. A conventional competitive model predicts that a binding wage floor may reduce demand for labour, while models that recognise monopsony power or frictions may predict smaller negative effects or even positive employment effects under particular conditions. The relevant empirical result depends on the labour-market structure, the level of the wage floor, the degree of enforcement, and the adjustment mechanisms available to employers. The article should avoid presenting either the claim that minimum wages always reduce employment or the claim that they never do so as an established fact.

Evidence from Indonesia illustrates this complexity. Alatas and Cameron (2008) examine the employment effects of minimum-wage changes in labour-

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intensive manufacturing and show why sectoral and regional conditions matter. Hohberg and Lay (2015) find that minimum wages positively affect formal-sector wages in their study period, without a statistically significant negative effect on the probability of formal employment. Fadhilah and Damayanti (2024) report that the positive relationship between minimum wages and formal employment in Java weakens as non-compliance increases. These studies are not direct evidence about Tangerang City in 2025, but they provide a comparative basis for treating compliance as a key variable in the assessment of wage policy.

Informality complicates the application of minimum-wage rules. Workers in informal employment may not be covered by the same mechanisms or may lack the documentation required to enforce a wage claim. The policy response should not assume that informal workers are outside the reach of labour protection in every circumstance; rather, it should examine the legal status of the relationship, the identity of the employer, and the applicable statutory coverage. The ILO's minimum-wage guidance treats coverage, enforcement, and formalisation as connected policy questions (Stansbury, 2025).

The decent-work framework offers a useful conceptual link between adequate remuneration and the wider spectrum of labour rights. Decent work involves productive employment, rights at work, social protection, and social dialogue. Minimum wages contribute to this framework by establishing a floor for remuneration, but they cannot independently guarantee decent work if workers face unsafe conditions, excessive hours, discrimination, insecure employment, or denial of social security. The ILO's wage-policy brief places minimum wages and living wages within the broader objectives of decent work and social justice (Stansbury, 2025).

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For the purposes of this article, decent work is not used as an unlimited umbrella concept. It is used to explain why wage policy should be coordinated with wage structures and scales, social security, occupational safety, working time, and collective bargaining. The analytical centre remains minimum-wage determination and compliance. This boundary prevents the article from becoming a general survey of all labour-law issues while recognising the institutional context in which wage rights operate.

E. Constitutional Interpretation and the State's Positive Obligations

Article 27 paragraph (2) of the 1945 Constitution links the right to work with the right to earn a livelihood worthy of human dignity. Article 28D paragraph (2) provides a more specific guarantee of fair and proper remuneration and treatment in employment. These provisions support an interpretation in which the state has both negative and positive responsibilities. The negative responsibility is to avoid arbitrary interference with the right to fair remuneration. The positive responsibility is to establish institutions, procedures, and enforcement mechanisms capable of making the right effective.

The positive dimension of constitutional protection is particularly important because the formal validity of an employment contract does not necessarily demonstrate the existence of a fair or balanced bargain. Employment relationships are structurally characterised by unequal bargaining power, as employers generally exercise greater control over employment opportunities, remuneration arrangements, and the continuity of employment (Nugroho et al., 2024). Such asymmetry may constrain workers' ability to negotiate legally compliant wages and effectively assert their statutory rights (Clibborn & Hanna-Osborne, 2023). This vulnerability is further reinforced by workers' concerns about potential retaliation or job loss, which may discourage

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them from reporting wage violations. Recent empirical evidence demonstrates that workers experiencing labour-standards violations frequently refrain from filing complaints, partly because of concerns about retaliation (Weil et al., 2026). Constitutional protection therefore requires more than the formal recognition of contractual freedom (Hamzah, 2023). It necessitates an effective regulatory and institutional framework that addresses unequal bargaining power, strengthens labour inspection, and ensures accessible remedies for workers whose rights have been violated (Galvin et al., 2026).

Nevertheless, the constitutional analysis must be formulated with doctrinal precision. The Constitution does not determine the exact annual UMK amount for Tangerang City. That amount is fixed through the statutory and administrative mechanism. Constitutional provisions instead supply the normative standard by which the legislation, decision-making process, and enforcement system should be assessed (Arifin et al., 2025). This distinction helps avoid the overstatement that every dispute about the calculation of wages is automatically a constitutional violation.

Law No. 27 of 2026 concerning Manpower Protection is a major legal development for a manuscript prepared in November 2026. The Ministry of Manpower's legal database records the statute as promulgated on 28 October 2026 and in force. The database describes the statute as reorganising and integrating labour-protection rules previously found in Law No. 13 of 2003 and Law No. 6 of 2023. The new law repeals Law No. 13 of 2003 and specified provisions of Law No. 6 of 2023. The final manuscript should therefore avoid referring to Law No. 13 of 2003 as the current principal statute without explaining its historical relevance to the 2025 period.

The wage provisions introduced by Law No. 27 of 2026 should be examined as a distinct statutory framework, particularly in light of Indonesia's

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evolving system of decentralised minimum-wage determination. Previous scholarship has documented the changing allocation of authority between the central government and regional governors in determining provincial and regency/municipal minimum wages (Mahy, 2022; Yuliasih et al., 2026). Empirical research has also demonstrated the importance of regional economic and labour-market conditions in understanding minimum-wage variation and its effects on wages and employment in Indonesia (Merdikawati & Al Izzati, 2025, 2026). Building on this institutional and empirical context, Article 137 of Law No. 27 of 2026 expressly recognises four categories of minimum wages: provincial, regency/municipal, provincial sectoral, and regency/municipal sectoral minimum wages. Articles 138 and 139 identify decent living needs, economic conditions, employment conditions, economic growth, and inflation as relevant considerations in minimum-wage determination. Article 140 further prohibits employers from paying wages below the applicable minimum wage and establishes an exception-application procedure requiring bipartite agreement and an external audit, with the application subject to determination by the governor.

The exception mechanism should be understood as a legally controlled procedure rather than a source of unrestricted discretion for employers. Its application must be assessed against clearly defined statutory conditions, evidentiary requirements, procedural safeguards, and the authority legally competent to approve the exception. Recent Indonesian legal scholarship has identified the risk of legal ambiguity and potential misuse in the implementation of minimum-wage exemptions, particularly where workers possess weaker bargaining positions and effective supervision is inadequate (Fakhry, 2026; Muklis Al'Anam & Armadani Armadani, 2025; Prasetiyo & Hoesin, 2022). Under Article 140 paragraphs (6)–(8) of Law No. 27 of 2026

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concerning Manpower Protection, a company seeking an exception must submit an application to the governor, supported by the results of bipartite negotiations and an external audit, for the governor's determination. The submission of an application should therefore not be construed as automatic authorisation to pay wages below the applicable minimum wage. This interpretation follows Article 140 paragraph (5), which expressly prohibits employers from paying wages below the minimum wage. Unless and until the competent authority determines the exception in accordance with the statutory requirements, the prohibition remains applicable. This approach preserves legal certainty while preventing procedural applications from being used as a unilateral instrument to reduce workers' statutory entitlements.

The 2026 law also gives renewed significance to wage structures and scales for workers with longer service. A minimum wage generally protects the lower boundary for workers covered by the statutory rule, while wage structures and scales should recognise position, tenure, education, competence, and productivity. The two mechanisms should be treated as complementary. A compliant minimum wage does not necessarily demonstrate that a company has a fair wage progression system.

IV. CONCLUSION

The findings of this research indicate that the performance of minimum-wage governance should not be evaluated merely in terms of the statutory establishment of minimum-wage standards. Its effectiveness is equally shaped by the strength of legal safeguards for workers, the degree of employer compliance, the institutional capacity to enforce labour regulations, and the availability of accessible and effective remedies for violations of wage entitlements. The experience of Tangerang City reveals the potential divergence

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between the regulatory framework as formally prescribed and its implementation within actual employment relationships. Identifying and evaluating this divergence requires credible empirical evidence, particularly employment-related documentation and corporate payroll records.

A sound framework for minimum-wage governance should integrate three interdependent dimensions: distributive justice, procedural justice, and institutional effectiveness. Building upon these principles, this research proposes a four-pillar governance model: (1) evidence-based wage determination informed by transparent economic data and meaningful stakeholder participation; (2) risk-based compliance monitoring undertaken by legally authorised labour-inspection institutions; (3) accessible mechanisms for legal redress, including confidential complaint procedures, protection against retaliation, and the recovery of unpaid wage entitlements; and (4) transparent tripartite accountability supported by periodic reporting and measurable compliance indicators.

The protection of workers' wage entitlements must be pursued in conjunction with the sustainability of business operations rather than treated as an opposing objective. Nevertheless, an enterprise's financial difficulties cannot, in themselves, constitute a lawful justification for remunerating employees below the applicable statutory minimum. Any exemption must be grounded in the eligibility requirements and procedural safeguards established under the relevant legislation. Equally important, maintaining a clear distinction between the legal framework applicable to the 2025 research period and subsequent regulatory developments is essential to upholding the principle of legal certainty.

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