Politicizing the Minimum Wage: Wage Councils, Worker Mobilization, and Local Elections in Indonesia

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Abstract

Indonesia’s weak labor movement transformed local wage councils from institutions of wage restraint into institutions that delivered generous wage increases. This article argues that the arrival of direct elections created an opportunity for unions to leverage elections to alter the balance of power on the wage councils. Activating that leverage required increased contentiousness and coordination among unions. As unions mobilized around wages, conflict with capital intensified and produced disruptive protests that led incumbents to side with workers. Unions also developed innovative tactics to sustain momentum in nonelection years. As unions turned the wage councils in their favor, employers fought back by shifting the scale of the conflict to the national level; the result was the recentralization of wage setting and more modest increases. In a global context of ever weakening organized labor, the Indonesian case shows how weak unions can gain power by mobilizing politically at the local level.

Keywords: minimum wages, labor movements, decentralization, tripartite institutions, Indonesian politics

For almost two decades, tripartite wage councils—consisting of representatives from the government, employers, and unions—have met annually in more than one hundred districts and municipalities to set minimum wages in Indonesia. Firm-level collective bargaining is weak, and the wage councils, as de facto collective bargaining institutions for an entire jurisdiction, were until recently the country’s most important wage-setting institution. For nearly ten years, the wage councils exercised wage restraint; average increases exceeded inflation by about 2.5 percent in most years between 2003 and 2012. Those small but steady gains were insufficient to ensure that minimum wages met the legal benchmark of progress toward the government-defined threshold of a decent living standard (kebutuhan hidup layak, ke)).

Frustrated by years of wage restraint, unions sought to transform the wage councils into institutions that delivered large real wage increases to workers. They succeeded in winning double-digit real increases for several years before the central government stepped in to recentralize wage setting.

The transformation of the wage councils is surprising because Indonesia’s unions perform poorly on three classic measures of organizational power—union density, union concentration, and collective bargaining coverage. According to the minister of manpower, union density declined drastically from around 3.4 million in 2007 to around 2.7 million in 2017. In a workforce numbering around 134 million in early 2018, union density is therefore just above 2 percent. Only some 7,000 companies out of a total of 230,000 have unions. Membership is split across dozens of federations and hundreds of unaffiliated unions. Indonesia’s unions have not made up for their small numbers with high levels of collective bargaining coverage or with strong collective bargaining agreements. Nor have they compensated for their organizational weakness by forming alliances with electorally competitive political parties. In Indonesia, no major political party has a strong connection to any of the unions, and efforts to found electorally viable labor-based parties have failed. In such circumstances, scholars would not expect tripartite institutions to deliver significant gains to workers.

How did an organizationally weak and politically isolated labor movement transform the wage councils? Tripartite wage councils gave unions an institutional means to negotiate wages. But to achieve more than modest improvements in wages, unions needed the support

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5 The Ministry of Manpower conducted a membership verification in 2005 and found that there were sixty-four federations—half were affiliated with one of the three confederations—and 1,237 unaffiliated plant-level unions. By 2010, the number of national federations had increased to ninety—thirty-six were affiliated with one of the four confederations—and the number of unaffiliated plant-level unions had dropped to 437.

6 A 2009 survey of 658 plant-level union leaders in twenty highly industrialized districts found that only 61 percent had collective bargaining agreements. Of these agreements, 42 percent merely replicated protections already guaranteed by law, and 5 percent included provisions that violated the law. See Teri L. Caraway, “Core Labor Rights in Indonesia 2010: A Survey of Violations in the Formal Sector” (Jakarta: American Center for International Labor Solidarity, 2010), 20. Even for one of Indonesia’s strongest locals, the metalworkers union in Bekasi, only 30 percent of its affiliates had concluded collective bargaining agreements. See David Duncan, “‘Out of the Factory, onto the Street’: The Indonesian Metalworkers Union Federation (FSPMI) as a Case of Union Revitalisation in Indonesia” (BA thesis, Australian National University, 2015), 36.


of local executives and governors who controlled the government representatives on the wage councils and had the authority to accept or reject recommendations from the councils. Changing the balance of power on the councils was a multistep and multicausal process. Direct elections gave incumbent executives an incentive to woo voters and therefore created a political opportunity for unions in industrial and metropolitan areas, where unions were stronger, to alter the calculus of the incumbents. For several years, unions did not fully exploit the new opportunity; they were internally divided and had not made the wage councils a priority. By 2010, however, they strengthened their cooperation at the local level and began to mount wage campaigns that turned up the pressure on local governments. As unions became more contentious, local executives began to sign off on more generous minimum wage increases. Unions also learned how to exploit interjurisdictional dynamics, which allowed them to leverage large wage gains in one locality to win similarly generous raises in another. Employers fought back as unions began to turn the wage councils in their favor, precipitating a series of disruptive labor mobilizations that paralyzed several core industrial areas in the 2011–12 wage cycle. Those protests prompted the national government to support far more generous wage increases in order to restore labor peace. The central government’s new attitude coincided with a favorable electoral calendar and stronger unity among unions at the national level, and the result was massive wage increases in the 2012–13 wage cycle.

Over the next two wage cycles, unions won lower but still substantial real increases despite an unfavorable electoral calendar and the collapse of union cooperation at the national level. They sustained momentum by drawing on the strength of local networks and through tactical innovations. Employers, frustrated by the volatility and unpredictability of the wage-setting process and by their failure to restore a pro-employer balance of power on the wage councils, shifted the scale of the conflict to the national level. With the support of the newly elected president, the central administration rewrote the rules governing the wage councils such that wage increases were based on a national formula that effectively recentralized wage setting. The balance of power on the wage councils no longer mattered because councils could do no more than rubber-stamp raises determined by the new formula. Minimum wage increases moderated, although they were still higher than during the previous period of wage restraint. However, unions could no longer leverage local elections and interjurisdictional dynamics to secure raises of the magnitude achieved from 2012 to 2013.

As organized labor becomes ever weaker by conventional measures, the Indonesian case provides an intriguing example of how unions can mobilize locally to gain some power. It is significant that associational power outside the workplace was central to labor’s success. Through collective mobilization outside the workplace, unions leveraged electoral institutions and historic patterns of wage setting at the local level to tip the balance of power on the tripartite wage councils in their favor. In decentralized polities, such local forms of organizing may lead to significant gains even when workplace power is weak.

We develop this argument in several steps, focusing on wage dynamics on Indonesia’s most populous island, Java, where industry is most concentrated and where minimum wages were
set at the municipality or district level for the entire period under consideration. In the next section we present data on minimum wage trends and analyze the transition to the system of decentralized wage setting and the period when wage councils functioned primarily as institutions of wage restraint. The section following explains how unions began to change the balance of power on the wage councils through increased contentiousness and by leveraging direct elections for local executives and interjurisdictional dynamics. We then analyze how capital struck back, taking authority for wage setting out of the hands of local governments.

**Minimum wages: Empirical trends, 2003–18**

Before analyzing the politics behind the transformation of the wage councils, a brief discussion of empirical trends in Java is in order. Until 2013, average real wage increases were modest, averaging just 2.5 percent a year from 2003 to 2012 (see Fig. 1). This period of wage restraint was followed by a three-year wage explosion and then by a period of more moderate but still substantial increases. These average figures, however, mask important variations integral to an understanding of how unions transformed the wage councils. Until 2010, industrial and metropolitan areas, where unions were stronger, fared no better and often worse than other parts of Java (see Fig. 2). Beginning in 2011, however, minimum wage increases in industrial and especially metropolitan municipalities and districts begin to outpace those in other parts of Java. In 2014 and 2015, those differences diminish, and after the central government imposed the wage formula that standardized wage increases across the country, those small disparities virtually disappear. Economic fundamentals were relatively stable during that period, as GDP growth was consistently about 5 to 6 percent, and labor productivity improved steadily.

![Figure 1. Average Minimum Wage Increases (Java) and Inflation, 2003–18.](source)

**Source:** Inflation data from the World Bank’s World Development Indicators database; wage data collected by authors.

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9 Until recently, with the exception of industrial districts and urban areas, minimum wages outside Java were typically negotiated at the provincial level. Many provinces also set sectoral provincial minimum wages higher than the base minimum wage. Some districts and municipalities also set sectoral minimum wages.

10 The metropolitan areas are Greater Jakarta (Bogor municipality and district, Bekasi municipality and district, Depok, Tangerang municipality and district, and South Tangerang municipality) and the Ring 1 area around Surabaya (Mojokerto, Sidoarjo, Gresik, and Pasuruan districts). About half of the metropolitan districts and municipalities are also industrial areas.

Figure 2. Average Minimum Wage Increases (Java) for Metropolitan, Industrial, and Other Areas and Inflation, 2003–18.

Source: Inflation data from the World Bank’s World Development Indicators database; wage data collected by authors.

On the basis of these empirical trends, we divide our analysis into several distinct periods: the period of wage restraint from 2003 until 2010, the period from 2010 until 2012 when unions in industrial and metropolitan areas begin to mobilize around minimum wages at the local level, the wage boom of 2013, and a final period of more modest but still substantial real wage increases. Let us turn first to a discussion of the establishment of the wage councils and the initial period of wage restraint.

Wage councils as institutions of wage restraint, 2003–10

Established in late 2001 during Indonesia’s transition to democracy, the local wage councils were the product of two parallel processes: decentralization and labor law reform. Decentralization began in 1999 with two laws that devolved the selection of governors, mayors, and district heads to local legislatures and revamped revenue sharing between national and subnational political units.12 As part of the decentralization process, the central government transferred authority for many functions, including minimum wage setting, to lower levels of government. But the rules governing the wage councils were to be determined by a new labor law that took several years to finalize. With the enactment of the Manpower Act of 2003 and its implementing regulations, a national framework for decentralized wage setting came into being. The Manpower Act set a decent living standard as the benchmark for minimum wages and required that wage councils, consisting of representatives from the government, unions, employers, and universities, advise municipal/district, provincial, and national governments on wage setting. The composition of the wage councils was firmed up in a 2004 implementing decree, which set a 2:1:1 ratio of representation for the government, unions, and employer associations.13 Local wage councils made recommendations to mayors and district heads, who then issued formal recommendations to governors, who held the final

13 Presidential Decree no. 107/2004 on Wage Councils.
authority to set wages throughout a province following those recommendations and input from the provincial wage council.

This system of decentralized wage setting replaced the previous system in which the Ministry of Manpower set them at the national level. The national government had supported both wage restraint and wage growth. After the Asian financial crisis struck Indonesia in 1997, it tightly controlled wages, and the real value of minimum wages eroded considerably. As the worst of the crisis passed, however, the central government began to support real wage growth.\(^{14}\) Once responsibility for wage setting was transferred to provincial governments in 2001, the central government continued to support real wage increases until 2002.\(^{15}\) But wage-setting processes varied substantially across regions before the rules of the new system were fully in place.\(^{16}\) Despite variations in how they went about setting minimum wages, local governments complied with central government policy, and by 2002 real wages exceeded their precrisis levels.\(^{17}\) In the wake of the 2002 Bali bombing and increasingly strident complaints by employers and foreign chambers of commerce about rising wages, however, the central government began to encourage provincial governments to hold the line on wages.\(^{18}\) Local governments complied, and in 2003, real wage increases averaged only about 1.5 percent.

This pattern of wage restraint continued after the Manpower Act provided the institutional framework for the wage councils. As a consequence, many labor advocates considered the wage councils to be ineffective during the early years of decentralized wage setting.\(^ {19}\) Why were unions unable to turn these institutions to their advantage during this period? One reason is that divisions among unions hampered their efforts. Unions needed to cooperate across organizational lines to be effective on the decentralized wage councils, and it took some years before sufficient levels of cooperation were achieved. Before 1998, there was only one recognized union in Indonesia, the All-Indonesia Workers Union (Serikat Pekerja Seluruh Indonesia, or SPSI), which functioned primarily to demobilize labor rather than to


\(^{17}\) Manning and Roesad, “Manpower Law of 2003.”


advocate for it.\textsuperscript{20} Although SPSI had many dedicated cadres, it was both cautious and protective of its dominance.\textsuperscript{21} SPSI continued to be the dominant force on the wage councils in the early post-Suharto years despite the emergence of many new unions and major defections from SPSI. Strong disagreements over the Manpower Act of 2003 also deepened divisions,\textsuperscript{22} and unions spent much of the next two years fighting among themselves. The wage councils became a source of friction and mistrust among unions, particularly in localities where worker representatives on the wage council cooperated in holding down wages.\textsuperscript{23}

Another factor contributing to ongoing wage restraint was the central government’s reluctance to flesh out the legal framework for the decent living standard, which required implementing regulations from the Ministry of Manpower. The new decent living standard (\textit{kebutuhan hidup layak}, or KHL) was based on a larger basket of goods than the previous standard based on minimum living needs (\textit{kebutuhan hidup minimum}, or KHM). Shifting the standard would have resulted in a substantial rise in minimum wages. The minister of manpower, Jacob Nuwa Wea, who was also the president of SPSI, announced in October 2004 that there would be a two-year delay in introducing the new standard and warned unions not to expect a real increase in minimum wages in 2005.\textsuperscript{24} That announcement was a big blow to unions, especially on the heels of two fuel price increases the same year. In August 2005, the Ministry of Manpower finally issued the regulation.\textsuperscript{25} Surprisingly, workers where unions were weakest, outside metropolitan and industrial areas, received the largest average wage increases in 2006. After that adjustment year, real wage increases fell.

The central government also took steps to assure continued wage restraint. With a large fuel price increase on the horizon for May 2008, it issued a joint ministerial decree urging governors not to approve minimum wage increases that exceeded the rate of economic growth.\textsuperscript{26} Perhaps the most important reason for continued wage restraint was that local executives, indirectly elected and therefore not directly accountable to voters, had little incentive to respond to union demands. The deafness to labor’s pleas was also a consequence of Indonesia’s party system: the major political parties are nonprogrammatic and differentiate themselves primarily by whether they are religious or nationalist.\textsuperscript{27} Many established parties


\textsuperscript{22} Caraway, “Protective Repression.”

\textsuperscript{23} Sedane, “Dinamika”; Domin Dhamayanti, “Walikota Risma Dan Kebijakan Pengupahan Surabaya” (Jakarta: ELSAM, undated); and interviews with Batam union leader, June 2008; Bogor labor activist, June 4, 2005; and KSBSI activist, July 2003.


\textsuperscript{25} Ministerial Regulation no. PER-17/MEN/VIII/2005 on the Components and Staged Implementation of the KHL.

\textsuperscript{26} “Decree to Cap Wages to Help Firms,” \textit{Jakarta Post} (October 27, 2008).

are dominated by Suharto-era elites, and most of the large new parties were set up by oligarchs hoping to improve access to government as a means to defend their power and wealth.28

In the absence of programmatic commitments to labor and with no accountability to voters, indirectly elected local executives deferred to the national government when it urged wage restraint. But this dynamic changed with the passage of a 2004 law on regional administration that provided for the direct election of district heads, mayors, and governors. This reform followed a 2002 constitutional amendment that transformed the presidency from an indirectly to a directly elected office.29 Direct elections for president began in 2004, and pressure mounted for the same reform to be extended to lower levels of government. Direct elections were put forward also as a means to rectify certain problems that had become evident after several years of indirect elections. The large number of parties in legislatures required the forming of coalitions to select an executive. The reluctance of party politicians to support a candidate from a rival party opened the door for individuals with military and bureaucratic backgrounds, or strong ties to the previous authoritarian regime, to use their financial resources to win the support of legislators.30 Because legislators could dismiss them, indirectly elected executives also had minimal autonomy and were not an effective check on the legislature.31 Advocates believed that direct elections would improve the well-being of citizens by strengthening checks and balances, reducing corruption, and encouraging more accountability to voters.

Direct elections opened a potential avenue for unions to change the balance of power on the wage councils. Candidates did not need to appeal directly to voters when local executives were indirectly elected: horse trading among the parties in the local legislature determined the outcome.32 Indirect elections favored employers, who had the necessary resources to influence the backroom deals cut by the political parties. With the introduction of direct elections, however, candidates for executive office began to appeal directly to voters. Races became more competitive and candidate-centered, and candidates had stronger incentives to

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woo voters with favorable policies. Organized constituencies now had the potential to influence executive races.

In industrial and metropolitan districts where unions were comparatively strong, direct elections gave unionists the opportunity to leverage the electoral vulnerability of incumbents to achieve more generous minimum wage increases. Yet when direct elections were introduced, on a staggered schedule from mid-2005, unions did not immediately seize this opportunity. Minimum wage increases continued to hover just above the inflation rate. In 2011, however, unions in industrial and metropolitan areas began to win more generous wage increases. As the next section will explain, the change resulted from increased cooperation and contention around minimum wages that, in the context of direct local elections, altered the balance of power on the wage councils in unions’ favor.

**The role of contentious politics, 2010–12**

To take full advantage of the wage councils, unions had first to manage their internal divisions so that they could cooperate more effectively. An important step in that direction was the replacement of problematic representatives on the wage councils. Younger activists fought to replace ineffective union representatives and to secure a seat at the table for a wider variety of unions. As the new members gained experience, they became more effective. In addition, unions in industrial and urban areas around the country formed interunion alliances whose main focus was mobilizing around the annual minimum wage negotiations. With time these alliances became semi-institutionalized and developed repertoires of collective engagement around the annual rhythm of wage negotiations.

As union networks around Indonesia were strengthening their representation and coordination, they began also to think more strategically about how to advance worker interests on the wage councils. To support their campaign, unions drew on a 2009 study by the nongovernmental organization Akatiga that examined the earnings and expenditures of garment workers in nine districts. Evidence was presented that wages, even set at the decent living standard, on average met less than 50 percent of the basic needs of a single worker, with a wider gap for workers with dependents. Yet, in 2010, only seven of thirty-eight districts in East Java, eight of twenty-six in West Java, and three of thirty-five in Central Java met that standard, including many industrial areas and major cities. Even unions in industrial

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areas that had secured minimum wages that met the standard could not take that achievement for granted, as some fell below it in subsequent years.

Beginning in 2009, local networks of unions began to make stronger demands for compliance with the decent living standard. Previously, wage council discussions had relied primarily on macroeconomic data, such as the inflation rate, to set wages rather than the market surveys that determined the local threshold for the decent living standard.\(^{36}\) Predictably, wage increases closely followed inflation. Labor activists inside and outside the wage councils demanded more careful and detailed market surveys as the foundation of wage setting. Unions increasingly conducted rival surveys and went public with the results as a means to hold wage councils accountable. They also highlighted the hardships workers experienced on wages below the decent living standard and noted the injustice and hypocrisy of paying them less than what the government itself had defined as a wage sufficient to live a decent life.\(^{37}\) They accused local governments directly of callously disregarding workers’ welfare: “Setting the minimum wage below the decent living standard is a sin that is committed intentionally by the government to make the people miserable.”\(^{38}\)

Through their collective efforts in the 2010–11 round of negotiations, unions succeeded in closing the gap between the minimum wage and the decent living standard in those industrial and metropolitan areas where the gap was small. But in some important industrial and metropolitan centers, including Jakarta and the Batam free trade zone in Sumatra, minimum wages remained well below the standard. In the following year, unions strove to maintain or raise the minimum where it had already been won and to attain it in the industrial and metropolitan areas that fell below it. Labor’s more tenacious demands intensified pressure on local governments and conflict with employers and led to a series of massive protests that paralyzed several key industrial areas. Conflict erupted first in Batam after employers refused to abide by the previous year’s agreement to set the minimum wage equal to or above the decent living standard; riots shut down the city for two days.\(^{39}\) The mayor intervened and sent a wage recommendation to the governor that was equal to the standard. The governor, seeking to deter further unrest, eventually approved a minimum wage set at 107 percent of the standard.\(^{40}\)

Weeks later, labor protest erupted around wage setting in Bekasi and Tangerang, the industrial centers to the east and west of Jakarta.\(^{41}\) The district head in Bekasi, Sa’dudin, was

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\(^{36}\) Tjandra, “Labour Law and Development in Indonesia.”


\(^{38}\) “Forum Buruh DKI Jakarta Desak Fauzi Bowo Mundur,” Antara (November 4, 2010).


\(^{40}\) “Gubernur Kepri Tetapkan Kenaikan UMK Batam,” Antara (December 14, 2011).

up for reelection in March 2012, just months after the conclusion of wage negotiations. Although he had not been a labor ally during his time in office, he faced what looked to be a close race in a union-dense district. In a last-ditch effort to win labor votes, his administration supported the unions in the 2011–12 wage negotiations. Outraged employers walked out of the negotiations, but the governor, who was from the same party as Sa’duddin, approved the council’s recommendation. When employers challenged its validity in court, unions responded by mounting a series of protests that shut down industrial zones throughout the district.

The workers’ mobilization in Bekasi was a response to employers’ attempt to circumvent the wage council’s recommendation; by contrast, labor unrest in Tangerang was a reaction to an unexpectedly high increase in the minimum wage in neighboring Jakarta. Jakarta’s governor, Fauzi Bowo, made a reelection bid in July 2012. In past years he had ignored union demands, but the looming election made him more responsive. He authorized a 19 percent rise, a much higher than expected increase that was extremely disruptive in neighboring Tangerang, whose wages were historically closely tied to Jakarta’s.

Tangerang’s minimum wage negotiations had been relatively placid before Jakarta announced its increase. Wage councils had recommended minimum wages that met the decent living standard, and the governor had already approved them. But on hearing the news from Jakarta, Tangerang’s unions changed tack and demanded an upward revision of the minimum wage. In Tangerang municipality, unions called on Mayor Wahidin to honor his promise that Tangerang’s minimum wage would not be lower than Jakarta’s. Wahidin approved a higher minimum wage and sent his recommendation to the governor for approval. The mayor’s action set off protests in neighboring Tangerang district, where unions pressured the district head to follow suit, and at the governor’s office in the provincial capital, Serang. The protests peaked on December 29, 2011, when tens of thousands of workers made their way to the governor’s office by motorbike, completely shutting down the toll road to Jakarta. The governor reluctantly agreed to raise the minimum wage a second time to match Jakarta’s.

These episodes of contentious politics in the 2011–12 wage cycle illustrate two dynamics amplified in subsequent years. First, union mobilizations intensified pressure on incumbents facing reelection, who responded by approving larger real wage increases. In other words, increased contentiousness allowed unions to exploit the political opportunity opened by direct executive elections. Second—and this dynamic interacted with the first—unions began to exploit interjurisdictional wage coordination in metropolitan areas to their advantage, and the result was especially large wage increases in the Surabaya and Jakarta metropolitan areas. As can be seen in Figures 3 and 4, minimum wages in the two metropolitan areas tracked each other very closely. In East Java, governors had a history of carefully coordinating Ring 1 wages, with Surabaya on top and the other four localities following behind. In Greater Jakarta, the localities are split across three different provincial governments and coordination was looser. Jakarta nevertheless served as a barometer in the region, and modest wage increases there strongly influenced wage setting in neighboring localities. This history of wage coordination meant that if unions in one locality won a large increase, union mobilization could create a cascade effect that spilled into other jurisdictions.
In sum, the wage campaign allowed unions to exploit the electoral vulnerability of incumbents and alter the calculus of incumbent executives, who in turn changed the balance of power on the wage councils by siding with unions. Worker mobilization around minimum wages not only allowed unions to take advantage of the electoral vulnerability of incumbents but also helped them to leverage patterns of wage coordination in the metropolitan areas. But employers resisted as unions began to make gains, prompting a strong backlash from workers. The disruptive effects of these mobilizations in major industrial areas in the 2011–12 wage cycle also captured the attention of the central government, which intervened in both Bekasi and Tangerang to endorse labor’s gains at the negotiating table and, in the case of Bekasi, effectively negated a court verdict in favor of employers. The central government sought to avoid similar tumult in the following year’s wage cycle by signaling its support for more generous increases. Combined with a favorable electoral calendar and stronger cooperation among unions at the national level, that support resulted in unprecedented wage increases that extended beyond the two core metropolitan areas and other industrial localities to the rest of Java.

Figure 3. Nominal Minimum Wages (Rupiah) in Greater Jakarta, 2002–15.
Source: Minimum wage data collected by authors.
In the months after these episodes of labor strife, the national government took a series of steps to placate workers and create industrial peace. Complaints by employers that both local and central governments had abandoned them to swarms of protestors went unheeded as the national government took steps to avoid unrest in the 2012–13 wage cycle. The minister of manpower announced that minimum wages throughout Indonesia should reach at least 2 million rupiah per month by 2014. Because the highest minimum wage at the time was just over 1.5 million rupiah, wage increases would have to be at least 33 percent over the next two years.

The labor movement was also working toward an unprecedented level of collaboration at the national level. On May 1, 2012, the three major confederations formed an umbrella group called the Indonesian Labor Council (Majelis Pekerja Buruh Indonesia, or MPBI). Two months later, MPBI launched its signature campaign, HOSTUM, which sought to eliminate outsourcing and to raise minimum wages significantly. MPBI created a new dynamic in minimum wage setting by enhancing interjurisdictional collaboration across federation and confederation lines. It flexed its muscles with a massive turnout on May Day and again when it called a national strike for October 3, strategically timed at the start of minimum wage negotiations. Days before the national strike, MPBI issued ambitious minimum wage targets


for twenty-one major industrial areas. The national strike was a huge success, with tens of thousands of workers participating in industrial areas across the country.

As negotiations proceeded, the minister of manpower held a meeting with the governors of the three provinces in the Jakarta metropolitan area and stressed the need to synchronize wage setting to avoid another year of chaos. A week later, just as wage councils across the nation were in the final stages of negotiations, the minister made a startling statement condoning minimum wages as high as 150 percent of the decent living standard. This statement gave the union representatives on the wage councils ammunition to demand minimum wage increases far in excess of inflation levels. Moreover, incumbent governors in East and West Java were running for reelection, as were a number of local executives in industrial and metropolitan areas; thus many local executives were paying closer attention to their working-class constituents.

In West Java, Bekasi’s mayor was up for reelection in December. To curry favor with unions, he pledged to match the minimum wage of the neighboring Bekasi district, which has the strongest unions in Greater Jakarta. After Bekasi district’s wage council concluded its negotiations, Bekasi’s mayor approved a slightly higher minimum wage. Unions in nearby Bogor district, with substantially lower wages than its neighbors, sought to leverage elections and interjurisdictional dynamics by mounting huge protests to force the district head to agree to set the minimum wage equal to Bekasi district’s. Unions in Bogor municipality in turn demanded a minimum wage equal to that in Bogor district. Bogor’s district head was up for reelection in September 2013, and the vice-mayor of Bogor was planning to run in the mayoral race in September 2013. Both governments issued minimum wage recommendations identical to those in Bekasi district, increases of 58 and 70 percent, respectively. West Java’s governor, who was running for reelection in February, approved the massive wage increases. In Jakarta, the governor signed off on an increase of nearly 45 percent to prevent the capital from falling behind the industrial districts in West Java, and all three localities in Banten followed precedent and fell in line behind Jakarta.

Negotiations in Greater Jakarta had effects elsewhere. When Jakarta’s wage council released its jaw-dropping 45 percent increase, the recommendations from Surabaya’s Ring 1 districts were sitting on the governor’s desk, awaiting his approval. In view of the massive increase in Jakarta, MPBI urged East Java’s unions to push the governor to narrow the wage gap.

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44 “Siaran Pers KAJS-HOSTUM,” MPBI (September 17, 2012).
between the two metropolitan areas. Unions leaped into action, mounting large and sustained protests outside the governor’s office. The sudden disruption of what had seemed to be an orderly minimum-wage-setting process shocked the East Java governor, who was also running for reelection.\footnote{“Gubernur Menyerahkan Tuntutan Buruh Jatim Ke Menakertrans,” \textit{Surabaya Pagi} (November 20, 2012).} He soon announced updated wage figures, which, although not as high as in Greater Jakarta, represented increases of more than 35 percent for the Ring 1 areas.

The gubernatorial elections were an essential catalyst for these huge gains. Governors had the final authority to set wages, but they faced competing pressures. Wary of driving away investment and unleashing protests by workers in other jurisdictions demanding that their wages be raised to match, governors were often reluctant to approve large wage recommendations unless politically invested in the reelection of a mayor or district head. However, the calculus changed when gubernatorial elections were on the horizon. In those circumstances, governors had much stronger incentives to sign off on large wage recommendations. Mayors and district heads—in particular, those in industrial areas who were also up for reelection—might also exploit the governor’s electoral vulnerability and submit larger than average wage recommendations. It was risky for a governor with a reelection bid on the horizon to reject generous recommendations made by mayors and district heads; but it was also risky to approve stingy recommendations from local executives. Sending workers to the polls with a fatter paycheck was the safer bet. As confirmed by a series of statistical tests (see Statistical App., below), an incumbent governor’s reelection bid strongly affected minimum wages, especially in industrial areas where a local executive was also running. Wage increases in the most industrialized localities where an incumbent governor faced reelection were about 13 percent higher than in industrialized areas without an incumbent running. In nonindustrial areas, the payoff was much smaller. The effect of incumbent reelection bids was even larger when an incumbent local executive and a governor both faced reelection. Wage increases in those localities averaged 3.75 percent to 20.95 percent higher—highest in the most industrial areas.

In sum, the massive minimum wage increases of 2013 were the culmination of a multiyear process in which unions, through engagement in contentious politics, began to exploit the electoral vulnerability of incumbents and to harness interjurisdictional dynamics in their favor. The disruptive protests in the 2011–12 wage cycle, in turn, convinced the national government to support substantial wage increases. With a supportive central government and the fortunate timing of the gubernatorial elections in the 2012–13 wage cycle, minimum wages throughout Java increased substantially, especially in industrial districts and municipalities and in the two metropolitan areas.

\textbf{Changing the rules, 2014–18}

The huge increases in the minimum wages in the 2012–13 cycle led inevitably to moves by the national government to reassert wage discipline. In an effort to prevent a repeat of the previous year, President Yudhoyono instructed local governments to keep productivity and economic growth in mind when setting minimum wages and further encouraged a shift to bipartite workplace negotiations in districts where the minimum wage exceeded the decent
living standard. Unions opposed this effort, and governors complied only half-heartedly, as presidential instructions are not binding. Wage increases in the next two years were lower than in 2013 but still substantial, averaging 16–17 percent, or roughly 10 percent higher than inflation.

Thus, although wage increases did not match the stratospheric heights of 2013, they were still much higher than in previous years. Such sustained wage hikes were impressive in the face of a central government pushing wage restraint and a less favorable electoral calendar. No incumbents were running for reelection in the two metropolitan areas in late 2013, 2014, or in early 2015. MPBI had also collapsed in 2013, in part over strategic disagreements about the 2014 minimum wage negotiations. Despite those unpropitious conditions, unions in some parts of Indonesia continued to win significant wage increases by drawing on the strength of their local coalitions and developing innovative new tactics. Less visible than the massive protests of previous years, those new tactics proved quite effective and showed a greater adeptness in maneuvering behind the scenes. For example, union networks in the Ring 1 area of East Java persuaded the governor to issue a letter instructing wage councils to raise the quality of three items used to calculate the decent living standard. That seemingly small change in the rules substantially increased the decent living standard and thereby set a higher baseline for negotiations in the 2013–14 and 2014–15 wage cycles.

In the Greater Jakarta area, however, some governors were more determined to prevent further double-digit real wage increases. Most important was Jakarta’s governor, Joko Widodo (known as Jokowi), who sent strong signals early in the negotiations that wage increases would be modest. Jokowi approved an increase of 11 percent, far below union demands. His decision to issue Jakarta’s minimum wage before other metropolitan jurisdictions put downward pressure on wages throughout the 2013–14 cycle; average increases were only 11 to 17 percent in the Greater Jakarta localities in Banten and West Java provinces. Seeing that modest wage hikes in Jakarta contained wages not only in the capital area but also in other major industrial areas, round unions sought in the 2014–15 wage cycle to secure a large wage recommendation from a metropolitan district before Jakarta’s wage council completed its deliberations. Jakarta would have to match the first mover to avoid falling behind. Unions targeted Pasuruan district in East Java’s Ring 1 because unions there were close to the district head. Pasuruan’s wage council finished their negotiations first and submitted a recommendation of rupiah 2.7 million, a 23 percent increase, to the governor.

In the meantime, Jokowi had gone on to contest and win the 2014 presidential race. His replacement and former deputy governor, Basuki Tjahaja Purnama (known as Ahok), advocated a maximum wage increase of 10 percent. Unions tried to heighten the pressure on Jakarta by negotiating a 22 percent increase in neighboring Bekasi municipality. Ahok,
instead of taking the bait, approved a disappointing 11 percent rise. Tangerang and other Greater Jakarta localities in Banten province followed Jakarta, while West Java’s governor approved wage increases higher than Jakarta’s. Wages in the province rose an average of 17.8 percent and ranged from 14 percent in Depok to 22 percent in Bekasi municipality.

In the wake of Yudhoyono’s ineffective attempt to restrain wages, the task of confronting the labor movement was left to Jokowi. The newly elected president had wooed labor during his campaign, with a “three decencies” (trilayak) pledge that promised to deliver decent work, decent wages, and a decent life. Two of the three major confederations backed him, and only the third supported his rival, Prabowo Subianto. Despite that support, and the presence of well-respected labor advocates such as legislator Rieke Diah Pitaloka on the campaign trail, Jokowi’s victory marked a strong turn against organized labor. His vice-president, Jusuf Kalla, was a prominent businessman who also served as the honorary chairman of the employer association (Asosiasi Pengusaha Indonesia, Apindo). When the new administration took office, Apindo’s chair, Sofyan Wanandi, became Jokowi’s adviser. Dubbed “Mr. Low Wages” by some elements of the labor movement, Wanandi was a vocal critic of the wage councils.

Jokowi understood the pressure on incumbents to grant large wage increases, having stood his ground despite intense pressure from unions during his final year as Jakarta’s governor. After taking office in October 2014, he launched a series of economic policy “packets” designed to make Indonesia’s economy more efficient and attractive to investors. The system for setting minimum wages was among the areas identified for reform. Employers feared that another round of double-digit wage increases might result from the wave of local elections slated for December 2015 in industrial and metropolitan areas. To avert that possibility, the government issued a regulation pertaining to wages as part of its fourth economic policy packet in October 2015. The new regulation bound local wage councils to set minimum wages by a formula: the current year’s minimum wage plus inflation and GDP growth. Local minimum wage councils were still responsible for issuing recommendations, and the district head or mayor and the governor still signed off on them, but unions no longer had an opportunity to bargain for larger increases. The regulation effectively recentralized minimum wage setting. The result was substantially lower real minimum wage increases. As

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60 See the conclusion of Teri L. Caraway and Michele Ford’s Labor and Politics in Indonesia (draft book manuscript) for a discussion of the various antilabor measures taken by the Jokowi government. Rieke expressed her disappointment with Jokowi’s record by apologizing to workers for encouraging them to support Jokowi. “Rieke Diah Pitaloka: Saya Minta Maaf Dulu Ajak Coblos Pak Jokowi,” Bisnis.com (April 28, 2015).
62 “Kenaikan UMP Bisa Jadi Alat Kampanye Jelang Pilkada,” Metrotvnews (August 20, 2015). From 2005 to 2013, local executive elections were on a staggered schedule, but in 2015 Indonesia began a transition to simultaneous local and national elections. The first transitional elections took place in December 2015.
63 Government Regulation no. 78/2015 on Wages.
64 Some economists had advocated for a less generous formula that tied raises to productivity gains, and others, fearing the creation of a wage-price spiral, proposed using a coefficient of 0.2 and 0.6 for GDP. Allen and Kyloh conclude that the formula was a “compromise between what the economists favored and what was considered politically justifiable.” Allen and Kyloh, “Labour Reforms in Indonesia,” 50.
can be seen in Figure 2, the convergence of real increases across jurisdictions reflects relatively high levels of compliance.

Unions mobilized and demanded that Jokowi revoke the regulation, to no avail. The government’s attitude was summarized well by Vice-President Kalla, who stated soon after the regulation was issued that workers should not protest because annual increases would average about 10 percent. The government deftly exploited rivalries among the major confederations by rewarding the leaders of the two that supported Jokowi’s campaign with well-paid positions on the boards of state-owned enterprises, making it difficult for them to criticize the government’s policies.

The change was a setback for unions but did not negate their gains entirely. The new wage formula was actually quite generous and would have delivered nominal increases of between 12 and 15 percent between 2003 and 2012, more than unions won at the negotiating table in most years. In other contexts, it is hard to imagine employers rejoicing at the prospect of annual raises averaging almost 10 percent. Considering the much higher increases workers won in the final years of the old system, employers were thankful for the predictability of the formula-based system. In industrial and metropolitan districts with the highest wages, however, employers have begun to lose their enthusiasm for the formula. Wage differentials between high- and low-wage districts increase with each passing year, and employers have called for, and in a few cases secured, a lower minimum wage for labor-intensive industries. Unions challenged those subminimum sectoral wages in court, and judges ruled that they violated the Manpower Act.

Conclusion

Indonesia’s volatile wage councils provide a dramatic example of how weak unions can make gains through political mobilization. Indonesia’s unions exploited the vulnerability of incumbent executives to alter the balance of power on the tripartite wage councils. Through stronger coordination and contentious collective action, unions raised the stakes for incumbents, and local executives increasingly supported more generous minimum wage increases. It was this interaction of institutions, new electoral opportunities, and contentiousness that explains the jaw-dropping wage gains in 2013. After several years of intensive mobilization around wages, unions developed a more sophisticated tactical repertoire that allowed them to draw on the strength of their local networks to continue to win gains even when the electoral calendar was not in their favor. Once the wage councils no longer delivered wage restraint, employers protested by walking out of negotiations, filing numerous lawsuits, and criticizing local governments for siding with labor. Unable to shift the balance of power on the wage councils in their favor or to subvert wage setting in the

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66 “Mestinya Buruh Menerima Formulasi Kenaikan Upah,” Kompas (October 16, 2015).
67 Interview with KSBSI president, February 2015; interview with KSPSI president, June 2015.
69 “New Minimum Wage Formula Comes Into Effect,” Jakarta Post (October 27, 2015).
70 “Soal Upah Murah, Garteks SBSI Siap Lawan Gubernur Jabar,” Banten Expres (February 1, 2015).
courts, employers responded by shifting the scale of the conflict to the national level, using their influence with the newly elected president to recentralize minimum wage setting.

As this case demonstrates, tripartite institutions can be harnessed by organizationally weak labor movements to win gains that would be inconceivable in a bipartite setting. But doing so requires labor to influence tripartite institutions through overtly politicizing them. It was through politics—not striving for consensus behind closed doors at the negotiating table—that unions altered the balance of power in their favor. But union success in this arena proved too much for capital to bear. As Leo Panitch argued many years ago with respect to corporatism in Western Europe, “Long before power can be won on this terrain, the structures will . . . be dismembered by the state and the bourgeoisie.”\textsuperscript{71} In the case of Indonesia, it was the national government that intervened on behalf of capital to undermine local institutions that labor had harnessed to its own benefit.\textsuperscript{72}

After years of focusing on winning wage gains through politics, Indonesia’s unions were ill prepared to make gains through bipartite negotiations with employers. The rapidity with which the wage councils were dismantled illuminates Jane McAlevey’s warning about the perils of putting “mobilizing” before "organizing."\textsuperscript{73} Yet union mobilization around minimum wages in Indonesia does not conform to her characterization of battles in the United States. Minimum wage negotiations in Indonesia were in effect collective bargaining institutions mediated by the state. And ordinary workers—not a token assembled by professional organizers for photo opportunities, but many thousands—provided the mobilizational muscle on the streets that gave union representatives the support they needed to win better deals. Their gains, moreover, extended beyond a single workplace, employer, or industry and applied to all workers in the formal sector regardless of whether they belonged to a union. In much the same way that India’s informal sector workers used the power of their votes to wrest stronger welfare protections from state governments,\textsuperscript{74} Indonesia’s unions exploited local electoral politics to alter the balance of power on the wage councils in their favor. In the context of increasing precarity and ebbing unionization, Indonesia’s wage councils provide an intriguing illustration of how unions can utilize tripartite institutions to do much more than merely blunt the worst symptoms of neoliberalism.

**Statistical appendix**

Our data set contains 1,482 observations covering 107 districts and municipalities on Java and the capital, Jakarta, from 2003 to 2015. We exclude the special province of Yogyakarta because it is ruled by a sultan and has a distinct set of local political dynamics. Between mid-2005 and 2015, a total of 213 local elections and ten gubernatorial elections occurred.


\textsuperscript{72} Parallels with these spatialized politics are also evident in the United States, where state legislatures have passed preemptive laws to keep cities from enacting pro-labor policies.


The dependent variable is the percentage increase in the negotiated minimum wage (%IncUMK-NEG). The minimum wage (UMK) is set in the last quarter of the calendar year and goes into effect on January 1 of the following year. For example, the 2015 minimum wage is set in the last quarter of 2014. Our dependent variable for 2014 would therefore be the change in the negotiated minimum wage from 2014 (set in the last quarter of 2013) to 2015 (set in the last quarter of 2014).

There are two key explanatory variables. The first is incumbency, which we operationalize as a dummy variable, coding it 1 when an incumbent is running for reelection. Because family dynasties are important players in many localities, we also code the incumbency variable 1 if a member of the incumbent’s family is a candidate, typically after an incumbent has served two terms. Local elections occurred throughout the year during the period analyzed, so the effects of elections may not be felt in the calendar year in which the election takes place. Since wages are set in the last quarter of the year, we coded the incumbency variable 1 in year $x$ if the election occurred in October, November, or December and in year $x - 1$ if the election was in January through September. We created three different incumbency variables: district and municipality (INC-LOCAL), provincial (INC-PROV), and a double whammy when both local and provincial incumbents are running for reelection (INC-LOCAL-PROV).

The second explanatory variable is INDUSTRIAL, which indirectly measures union strength. Since union membership figures are based on unreliable self-reported data from unions, we developed an alternative measure. Union membership is concentrated in manufacturing, so localities where manufacturing makes a large contribution to GDP and where comparatively more people work in industry will likely have a greater union presence. Our index therefore multiplies the manufacturing share of GDP by industrial employment’s share of the total labor force. All else equal, we expect more industrialized localities to receive higher minimum wage increases. Since we expect local elections to have the strongest effect on wages in industrial areas, we also include an interaction term between the incumbency variables and INDUSTRIAL.

We also include three controls in our models: the two-year average of the consumer price inflation rate (INF-2YR), the two-year average of GDP growth (GDP-2YR), and the previous year’s minimum wage. Our reasons for including these controls are that high inflation rates will affect the price of the goods surveyed to determine the decent living standard; wage increases can be expected to be more generous when the economy is growing rapidly; and, given that we are using time-series analysis, we must control for the previous year’s wage. We calculate the two-year average of the consumer price inflation rate and GDP growth rates by averaging the year before the negotiations take place and the calendar year of the

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76 Our primary source of data is the World Bank’s Indonesia Database for Policy and Economic Research (https://data.worldbank.org/data-catalog/indonesia-database-for-policy-and-economic-research). The data set was last updated in 2015 and does not have data for 2014 and 2015. For 2014 and 2015 we carried forward the 2013 data for manufacturing share of GDP, and for industrial share of the total workforce we obtained 2014 and 2015 data from provincial statistical reports. Industrial share of the total workforce is unavailable before 2007, so we extended the 2007 figure to the previous years. The average value of INDUSTRY is 0.043, and the median value is 0.024, with a maximum value of 0.301 and a minimum value of 0.000. We also ran the models using each component of the measure separately, and the results were similar.
negotiations. We use a two-year average since the surveys typically take place in the middle of a calendar year. We obtained these data from the World Bank’s World Development Indicators database.

We employ a generalized estimating equation (GEE) model, an extension of the generalized linear model (GLM), to estimate the relationship between the percentage change in the minimum wage, union power, and local elections over the time period 2002–15. GLM/GEE is suitable for our data because it allows for the error term of the dependent variable to have a distribution other than a normal distribution. Since our N is small \((N = 1,482)\) and our data are population data, we cannot assume that the error term on our dependent variable has a normal distribution or that it will normalize with a larger \(N\). Our data combine time-series and cross-sectional observations, so we use a panel regression technique that allows us to assess how these cross sections change over time. We run three models, each utilizing a different incumbency variable (INC-LOCAL, INC-PROV, and INC-LOCAL-PROV). Table A1 reports the results.

<p>| Table A1. Generalized Estimation Equation Population-Averaged Model Regression of Percentage Minimum Wage Increase ((N = 1,482)). |</p>
<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>SE</td>
<td>Coefficient</td>
</tr>
<tr>
<td>District-level incumbency (INC-LOCAL)</td>
<td>-0.02</td>
<td>0.07</td>
<td>-</td>
</tr>
<tr>
<td>Provincial incumbency (INC-PROV)</td>
<td>-</td>
<td>-</td>
<td>0.006</td>
</tr>
<tr>
<td>Double whammy (INC-LOCAL-PROV)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Industry index (INDUSTRIAL)</td>
<td>0.15</td>
<td>0.29</td>
<td>-0.017</td>
</tr>
<tr>
<td>Interaction (INDUSTRIAL \times incumbency)</td>
<td>0.125</td>
<td>0.102</td>
<td>0.390***</td>
</tr>
<tr>
<td>Inflation (INF-2YR)</td>
<td>-0.008***</td>
<td>&lt;0.01</td>
<td>-0.006***</td>
</tr>
<tr>
<td>GDP (GDP-2YR)</td>
<td>0.006***</td>
<td>0.003</td>
<td>0.003</td>
</tr>
<tr>
<td>Minimum wage increase previous year</td>
<td>&lt;0.01*</td>
<td>&lt;0.01</td>
<td>&lt;0.01***</td>
</tr>
<tr>
<td>Constant</td>
<td>0.140***</td>
<td>0.020</td>
<td>0.156***</td>
</tr>
</tbody>
</table>

**Note:** Model IA: percentage minimum wage increase regressed on incumbency and interaction variable (district head incumbency \times industry index); Model IB: percentage minimum wage increase regressed on incumbency and interaction variable (provincial incumbency \times industry index); Model IC: percentage minimum wage increase regressed on incumbency and interaction variable (double whammy \times industry index).

**Sources:** Authors’ elaboration.

\*p < 0.05, \*\*p < 0.01, \*\*\*p < 0.001.

The interaction of INDUSTRIAL and the incumbency variable is substantively large and statistically significant when governors are running for reelection and when incumbents are running for reelection at both levels of government. The marginal effects provide a closer look at the substantive effects of the interaction between INDUSTRIAL and the gubernatorial incumbency (Model 2) and simultaneous incumbency (Model 3; see Figs. A1 and A2). The marginal effects suggest that in the absence of a reelection bid by a governor or a simultaneous reelection bid at the local and provincial level, localities have a similar rate of minimum wage change (12.1–11.5 percent and 12.0–12.6 percent, respectively). In localities with an incumbent governor running for reelection, however, an increase in INDUSTRIAL is associated with a substantially higher average minimum wage increase. For example, localities with an INDUSTRIAL score of 0.28 experience an average 23.2 percent minimum wage increase when an incumbent is running in a gubernatorial election, 8.9 percent higher than localities with an INDUSTRIAL score of 0.04. The payoff in industrial areas is even larger when there are simultaneous gubernatorial and local reelection bids. For example,
localities with an INDUSTRIAL score of 0.28 experienced an average 31.4 percent minimum wage increase when an incumbent ran in both elections, 13.3 percent higher than localities with an INDUSTRIAL score of 0.04.

Figure A1. Marginal Effects of Gubernatorial Incumbency with 95 Percent Confidence Intervals. 
*Source:* Authors’ elaboration.

Figure A2. Marginal Effects of District Head/Mayor and Gubernatorial Incumbency with 95 Percent Confidence Intervals. 
*Source:* Authors’ elaboration.
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