OPEN ACCESS
World Journal of Economics, Business and Management
ISSN: 3049-2181 | Vol. 3, No. 9, Sep, 2026
Website: https://wasrpublication.com/index.php/wjebm

MINIMUM WAGE POLICY AND THE DYNAMICS OF LABOR ABSORPTION IN INDONESIA: A PUBLIC-DATA ANALYSIS FROM A PUBLIC ECONOMICS PERSPECTIVE

Yuliana Saridewi Kusumastuti[1*], Puji Hastuti[2], Ambo Paerah[3]

[1]Management Department Binus Online Learning, Bina Nusantara University, Jakarta, Indonesia, Indonesia

[2]Faculty of Economics, Achmad Yani University, Banjarmasin, Indonesia

[3]Faculty of Economics and Business, University of Eastern Indonesia, Indonesia.

Received: 15/07/2025 | Accepted: 27/08/2026 | Published: 24/09/2026

Abstract: Minimum wage policy is one of the most direct instruments of government intervention in the labor market, intended to protect workers' purchasing power while preserving business sustainability. This article analyzes the dynamics of Indonesia's Provincial Minimum Wage (UMP) policy over 2020–2026 and relates it to labor absorption trends using public data from Indonesia's Central Statistics Agency (BPS) and Ministry of Manpower (Kemnaker). The data show that the national average UMP rose consistently from Rp2.67 million (2020) to Rp3.32 million (2025), with annual increases surging post-pandemic (7.2% in 2023), while the national Open Unemployment Rate (TPT) remained relatively stable in the 4.76–5.32 percent range over the same period not showing the sharp disemployment pattern predicted by the classical competitive-market model. However, the data reveal an important paradox at the segment level: the highest unemployment rates occur precisely among young people (16.89%) and vocational high school (SMK) graduates (8.63%) groups theoretically expected to benefit most from formal human-capital investment. This article uses a descriptive-comparative analysis of secondary public data, without structural model testing (PLS-SEM), and interprets the findings through the public-economics framework on minimum wages (competitive vs. monopsony models) and human capital theory. The findings indicate that the core problem in Indonesia's labor market is not simply disemployment from UMP increases, but a structural mismatch between vocational education output and labor-market needs, implying the need to integrate wage policy with vocational-education policy and formal job creation.

Keywords: *minimum wage, labor market, unemployment, public economics, human capital, public data*.

1. INTRODUCTION

The minimum wage is one of the public-economic policy instruments that touches workers' welfare most directly, while also being among the most frequently debated in economics. Within a public-economics framework, setting a minimum wage represents government intervention in market mechanisms to correct the bargaining-power imbalance between workers and employers; theoretically, however, this intervention also carries the potential trade-off of reduced labor absorption (the disemployment effect), particularly among low-skilled worker segments.

In Indonesia, Provincial Minimum Wage (UMP) policy has undergone significant dynamics over the past five years. After being nearly stagnant during the Covid-19 pandemic (only a 0.57% increase in 2021), the national average UMP surged 7.2% in 2023, then grew 6.5% in both 2024 and 2025, before being set to rise in the range of 5–8% nationally for 2026 with sharp variation across provinces, from 0% in Central Papua to 9.07% in Central Sulawesi. These dynamics make the 2020–2026 period a relevant observation window for descriptively examining how minimum wage increases correlate with national labor-absorption trends.

A fundamental question in public economics concerning the minimum wage is whether this policy creates a trade-off between the welfare of already-employed workers and job opportunities for new job seekers a classic debate between

*Corresponding Author
Yuliana Saridewi Kusumastuti*
Email: yuliana.kusumastuti@binus.ac.id.

This is an open access article under the CC BY-NC license

the competitive-market model (which predicts disemployment) and the monopsony model (which predicts that minimum wage increases can, up to a certain point, raise rather than lower labor absorption). This article is not intended to statistically test the causal relationship between UMP and unemployment which would require provincial panel data and more complex econometric models but rather to map descriptive patterns from available public data, as a basis for initial argumentation and for further causal research.

Beyond the wage dimension, this article also highlights the human-capital dimension of public economics: the extent to which investment in formal education, particularly vocational education (SMK), is genuinely translated into better labor absorption. The available data reveal a surprising pattern on this point, which forms one of the article's main findings.

This article's research questions are: (1) how has Indonesia's minimum wage policy trended over 2020–2026; (2) how has the national Open Unemployment Rate (TPT) trended over the same period, and is that pattern consistent with the predicted disemployment effect; and (3) which labor segments bear the highest unemployment burden, and how can that pattern be interpreted through public-economics theory on minimum wages and human capital.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Minimum Wage Economics: Competitive vs. Monopsony Models

In classical public-economics theory, the competitive labor market model predicts that setting a minimum wage above the market equilibrium point creates an excess supply of labor, which manifests as unemployment known as the disemployment effect. In labor-market dynamics, neoclassical theory predicts that setting the minimum wage above the competitive equilibrium level triggers a decline in labor absorption and generates involuntary unemployment (Brožová, 2018; Lydall, 1998). This mechanism is rooted in the decline in the quantity of labor demanded by employers in the face of an increased labor supply (Barika; Elliyana & Basir, 2025; Bechtold, 2014; Lydall, 1998). However, since Card and Krueger's empirical studies in the early 1990s, a number of studies have found that under conditions where the labor market is not fully competitive (e.g., the presence of employer monopsony power), minimum wage increases within a certain range can actually raise, rather than lower, labor absorption (Azar & Marinescu, 2024; Barika; Elliyana & Basir, 2025; Card & Krueger, 2000; Manning, 2020). This theoretical debate is relevant for reading the Indonesian context, where the labor market is highly segmented between the formal and informal sectors.

2.2 Human Capital Theory and the Vocational Graduate Absorption Paradox

Human Capital Theory views education and training as investments that raise individual productivity, which in turn should improve job opportunities and wages received (Blundell et al., 1999; da Silva et al., 2023; Leoni, 2025; Rafid, 2023). Vocational education, including SMK (vocational high school), is specifically designed to produce work-ready skills for the labor market. However, a number of studies identify a structural mismatch between vocational curricula and actual industry needs, which may explain why vocational graduates do not always have a labor-absorption advantage over general-education graduates (Boedirochminarni et al., 2026; Larasati et al., 2026; Mahendra et al., 2024). This phenomenon is relevant to the Indonesian context, given that a significant share of the young labor force are SMK graduates (Rabie & Elliyana, 2019).

2.3 Labor Market Segmentation and Regional Disparity

Labor market segmentation theory explains that the labor market is not homogeneous, but is divided into a primary segment (formal, stable, adequately paid jobs) and a secondary segment (informal, unstable, low-paid jobs), with limited mobility between segments (Berndt et al., 2023). The urban–rural TPT disparity in Indonesia can be read through this framework: urban areas, dominated by the formal sector, tend to have higher TPT because job seekers are willing to wait for formal job opportunities, while rural areas, dominated by the informal/agricultural sector, absorb labor more quickly but with generally lower productivity and wages (Almeida et al., 2016; Amodio et al., 2025; Feng et al., 2024).

3. RESEARCH METHOD

This article employs a descriptive-comparative analysis approach on secondary public data, with an observation period of 2020–2026 for minimum-wage data and 2023–2025 for labor-market data. The descriptive approach was deliberately chosen: validly testing the causal relationship between UMP increases and unemployment would require panel data for 38 provinces with control variables (sectoral structure, education level, regional inflation) and econometric models (e.g., difference-in-differences or panel regression), which lie beyond the scope of this article based on aggregate public data. This article therefore limits its claims to pattern identification rather than causal-effect estimation.

Data Sources:

- Ministry of Manpower (Kemnaker) data and official reporting on the national average Provincial Minimum Wage (UMP), 2020–2026.
- The National Labor Force Survey (Sakernas) published by Indonesia's Central Statistics Agency

(BPS), 2023–August 2025, covering the national Open Unemployment Rate (TPT), and TPT by age group, education level, and region (urban/rural).

- BPS press releases on the Human Development Index (IPM) and the national average worker wage for 2025.

Analysis Technique:

The data were analyzed in three stages: (1) time-series trend analysis of the national average UMP (2020–2026) and national TPT (2023–2025) to identify whether the direction of movement is consistent with the predicted disemployment effect; (2) comparative analysis of TPT across segments (age group, education level, region) to identify the groups bearing the highest unemployment burden; and (3) thematic-interpretive analysis linking these patterns to public-economics theory on minimum wages, human capital, and labor market segmentation, conducted qualitatively without claims of statistical causality.

4. RESULTS AND DISCUSSION

4.1 National Minimum Wage Policy Trends, 2020–2026

Kemnaker data show the national average UMP rising from Rp2,672,371 in 2020 to Rp3,315,761 in 2025 a cumulative increase of 24.1% over six years (Table 1). The growth pattern is non-linear: sharply restrained during the pandemic (0.57% in 2021; 1.40% in 2022), then jumping sharply post-pandemic (7.2% in 2023) before stabilizing at 6.5% in both 2024 and 2025. For 2026, the increase was set with significant variation across provinces: from 0% in Central Papua to 9.07% in Central Sulawesi, with a national average in the range of 5–8%.

Year	National Average UMP	Growth (YoY)
2020	Rp2,672,371	—
2021	Rp2,687,723	0.57%
2022	Rp2,725,504	1.40%
2023	Rp2,923,309	7.20%
2024	Rp3,113,359	6.50%
2025	Rp3,315,761	6.50%
2026	n/a (varies by province)	± 5–8% (national)

This pattern indicates that Indonesia's minimum wage policy is highly responsive to macroeconomic cycles (held back during crises, raised aggressively during recovery), while also becoming increasingly decentralized to the provincial level following the enactment of a new wage-setting formula (Government Regulation No. 49 of 2025), which factors in inflation, economic growth, and a labor-contribution index (alpha) specific to each region.

4.2 Unemployment and Labor Absorption Trends, 2023–2025

Contrary to the sharp disemployment effect prediction, BPS data show national TPT remaining relatively stable and even tending to decline during the period of the most aggressive UMP increases: from 5.32% in 2023 to 4.91% in August 2024, edging down further to 4.76% in February 2025, before ticking up slightly to 4.85% in August 2025 (Table 2) still lower than August 2024. In August 2025, the labor force reached 154 million people (up 1.89 million from the previous year), with 146.54 million of them employed, and the average worker wage recorded at Rp3.33 million close to the national average UMP figure.

Period	National TPT	Number of Unemployed
2023	5.32%	n/a*
August 2024	4.91%	7.47 million
February 2025	4.76%	n/a*
August 2025	4.85%	7.46 million

The stability of TPT amid a cumulative UMP increase of more than 20% since 2020 provides an early indication that, in national aggregate terms, Indonesia's labor market does not display the disemployment pattern predicted by the pure competitive-market model a pattern more consistent with the characteristics of a segmented labor market containing elements of monopsonistic power in a number of sectors, as argued in Section 2.1.

4.3 The Vocational Education Paradox and Youth Unemployment

Segment-level data for August 2025 reveal a pattern that is theoretically more concerning than the aggregate trend (Table 3). TPT among the youth age group (15–24 years) reached 16.89% more than three times the national TPT while TPT among those aged 60 and above was only 1.71%. More surprisingly, the highest TPT by education level was recorded among vocational high school (SMK) graduates, at 8.63%, higher than graduates of elementary school, junior high school, or several tertiary-education levels.

Segment	TPT	Note
Ages 15–24	16.89%	Highest
Age 60 and above	1.71%	Lowest
Vocational high school (SMK) graduates	8.63%	Highest by education level
Urban areas	5.75%	—
Rural areas	3.47%	—

This finding contradicts the basic prediction of Human Capital Theory, which would expect vocational graduates with more specific, work-ready skills to have better labor absorption than general-education graduates. This pattern is more consistent with the structural-mismatch argument: Indonesia's SMK curricula and vocational tracks are likely not yet fully aligned with actual industry needs, so that formal human-capital investment at this level has not yet been fully converted into a competitive advantage in the labor market.

4.4 Urban–Rural Regional Disparity

Urban TPT (5.75%) was recorded higher than rural TPT (3.47%) in August 2025 (Table 3). This pattern is consistent with the labor market segmentation framework in Section 2.3: urban areas dominated by the formal sector produce more selective job-seeker behavior (willing to wait for formal employment paying UMP-level wages), while rural areas dominated by the informal/agricultural sector absorb labor more quickly, albeit with generally lower productivity and job security. It is worth noting that the national share of formal workers also rose slightly, from 42.05% (2024) to 42.20% (2025), indicating a slow shift toward labor-force formalization.

4.5 Discussion: Interpretation from a Public Economics Perspective

The three findings above can be assembled into several interpretive propositions linking the aggregate data to the public-economics theoretical framework outlined in Section 2.

P1. The stability of national TPT amid a cumulative UMP increase of more than 20% since 2020 does not support the pure competitive-market model's disemployment effect prediction in aggregate terms, and is more consistent with the characteristics of a segmented Indonesian labor market containing elements of monopsonistic power in a number of sectors although formal causal testing is still needed to confirm this pattern.

P2. The unemployment burden in Indonesia is not evenly distributed, but is concentrated among young people and SMK graduates indicating that the core problem in Indonesia's labor market is most likely not disemployment caused by minimum wage policy, but rather a structural mismatch between the output of the vocational education system and actual labor-market needs.

P3. The urban–rural TPT disparity reflects formal–informal labor market segmentation, in which UMP increases most likely have a significant impact on the urban formal sector (which is legally required to comply with UMP) but minimal impact on the rural informal sector (which is often, de facto, beyond the reach of UMP enforcement) a policy-implementation gap that warrants regulators' attention.

P4. The slight but consistent rise in the share of formal workers (42.05% to 42.20%) indicates that labor-force formalization in Indonesia is proceeding slowly, so that in practice the effectiveness of minimum wage policy as a worker-protection instrument reaches less than half of the employed labor force.

Overall, the available public data shift policy attention away from the conventional debate over "whether the minimum wage causes unemployment" toward a more specific and policy-actionable question: why vocational graduates and young workers bear the highest unemployment burden, and how wage policy can be integrated with vocational-education reform and formal-sector expansion.

5. CONTRIBUTIONS AND IMPLICATIONS

5.1 Theoretical Implications

This article contributes descriptive evidence from the Indonesian context to the competitive-vs.-monopsony debate in minimum wage theory, while also demonstrating the importance of combining minimum-wage analysis with human capital theory and labor market segmentation theory, rather than treating the three as separate frameworks. The multi-source public-data analysis approach (Kemnaker and BPS) used here also demonstrates a replicable methodological pathway for public-economics research based on official secondary data.

5.2 Practical and Policy Implications

- For wage policymakers (Kemnaker, the Wage Council): the need for UMP impact assessments disaggregated down to the sector and provincial level, not just the national average figure, given the very wide variation in 2026 UMP increases (0–9.07%) across provinces.
- For the Ministry of Education and vocational institutions: the urgency of a thorough evaluation of how well SMK curricula align with industry needs, given that SMK graduates' TPT is consistently the highest by education level.
- For regional governments: the need for employment strategies that distinguish between the urban formal labor market (focused on UMP enforcement and formal job-creation expansion) and the rural informal labor market (focused on raising productivity and social protection outside the UMP scheme).

6. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

As an article based on aggregate secondary public data, its main limitation is the absence of formal causal testing between UMP increases and unemployment rates; the patterns identified are descriptive and cannot rule out the possibility that other factors (economic growth, business cycles, fiscal policy) simultaneously influence TPT trends. The data used are also nationally aggregated, so they cannot

capture the heterogeneity of UMP impacts across provinces or sectors. Future research is recommended to use panel data for 38 provinces with panel regression or difference-in-differences models to causally test the impact of UMP increases on labor absorption, ideally disaggregating results by formal/informal sector and workers' education level, in order to empirically follow up on the interpretive propositions proposed in Section 4.5.

References

1. Almeida, C. S. de, Miccoli, L. S., Andhini, N. F., Aranha, S., Oliveira, L. C. de, Artigo, C. E., Em, A. A. R., Em, A. A. R., Bachman, L., Chick, K., Curtis, D., Peirce, B. N., Askey, D., Rubin, J., Egnatoff, D. W. J., Uhl Chamot, A., El-Dinary, P. B., Scott, J.; Marshall, G., Prensky, M., ... Santa, U. F. De. (2016). Title. *Revista Brasileira de Linguística Aplicada*, 5(1), 1689–1699.
2. Amodio, F., Medina, P., & Morlacco, M. (2025). Labor market power, self-employment, and development. *American Economic Review*, 115(9), 3014–3057.
3. Azar, J., & Marinescu, I. (2024). Monopsony Power in the Labor Market: From Theory to Policy. *Annual Review of Economics*. https://doi.org/10.1146/annurev-economics-072823-030431
4. Barika; Elliyana, E., & Basir, A. (2025). *Leadership Behavior as the Determinant of Organizational Engagement: A Review of Managerial Character and Employee Retention*. 10(4), 3063–3069.
5. Bechtold, B. (2014). Neoclassical Economics and Federal Policies. *Review of Radical Political Economics*, 46, 496–501. https://doi.org/10.1177/0486613414537990
6. Berndt, R., Fantapié Altobelli, C., & Sander, M. (2023). International market selection. In *International marketing management* (pp. 123–164). Springer.
7. Blundell, R., Dearden, L., Meghir, C., & Sianesi, B. (1999). Human capital investment: the returns from education and training to the individual, the firm and the economy. *Fiscal Studies*, 20(1), 1–23.
8. Boedirochminarni, A., Salapudin, S., & Putranto, F. G. F. (2026). Does vocational education matter? Evidence from a large-scale cross-sectional dataset in Indonesia. *Journal of Innovation in Business and Economics*. https://doi.org/10.22219/jibe.v10i01.42489
9. Brožová, D. (2018). The Minimum Wage in the Neoclassical and the Behavioural Labour Market Theory. *Acta Oeconomica Pragensia*. https://doi.org/10.18267/j.aop.610
10. Card, D., & Krueger, A. (2000). Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania. *The American Economic Review*, 90, 1362–1396. https://doi.org/10.1257/aer.90.5.1397
11. da Silva, L. A. P., da Silveira Julião, M., da Costa Leonidio, U., Ferreira, H. M. G., de Souza, C. G., de Oliveira Cardoso, D., Pereira, J. C., & dos Santos, V. C. (2023). The perception of customers regarding customer service by applying the Disney methodology in a hotel. *Revista de Gestão e Secretariado (Management and Administrative Professional Review)*, 14(5), 7683–7705.
12. Feng, Y., Lagakos, D., & Rauch, J. E. (2024). Unemployment and development. *The Economic Journal*, 134(658), 614–647.
13. Larasati, S., Ginting, R. B., & Ariyanto, L. (2026). Enhancing Vocational Graduate Employability: The Roles of Teachers' Pedagogical Competence and School–Industry Partnerships in Kendal Regency. *JPI: Jurnal Pustaka Indonesia*. https://doi.org/10.62159/jpi.v6i2.2292
14. Leoni, S. (2025). A historical review of the role of education: From human capital to human capabilities. *Review of Political Economy*, 37(1), 227–244.
15. Lydall, H. (1998). *The Employment Limit*. https://doi.org/10.1057/9780230379879_8
16. Mahendra, B., Oktaviani, S., Gusti, M. H. C., & Wardoyo, S. (2024). Keterampilan Kerja Lulusan Pendidikan Kejuruan dan Relevansi Kompetensi Melalui Praktik Industri di Dunia Kerja. *Jurnal Pendidikan Teknologi Informasi Dan Vokasional*. https://doi.org/10.23960/jptiv.v6i2.32506
17. Manning, A. (2020). Monopsony in Labor Markets: A Review. *ILR Review*, 74, 3–26. https://doi.org/10.1177/0019793920922499
18. Rabie, R., & Elliyana, E. (2019). Human capital and economic growth in Indonesia. *Journal of Contemporary Economic Studies*, 4(01), 169–176.
19. Rafid, M. (2023). Relationship analysis and concept of human capital theory and education. *EDUCATUM: Scientific Journal of Education*, 1(1), 26–31.
20. Badan Pusat Statistik (BPS). (2025, November 5). Siaran Pers: Tingkat Pengangguran Terbuka (TPT) sebesar 4,85 persen, Rata-Rata Upah Buruh sebesar 3,33 Juta Rupiah. bps.go.id.

21. Bisnis.com. (2025, December 16). Upah Minimum Pernah Naik 7%, Ini Data Kenaikan Rata-Rata UMP sejak Pandemi Covid-19.

22. CNBC Indonesia. (2025, May 1). Check Disini! Daftar Provinsi dengan Upah Tertinggi di Indonesia.

23. GoodStats Data. (2025, November 6). Tingkat Pengangguran Terbuka RI Sentuh 4,85% per Agustus 2025.

24. Hukumonline. (2025, December 27). UMP 2026 Naik, Ini Daftar Lengkap Upah Minimum di Setiap Provinsi.

25. InfoPublik. (2025, November 5). BPS: Agustus 2025 Tingkat Pengangguran Terbuka Indonesia Menurun.

26. Indonesiabaik.id. (2025, December 29). Besar Upah Minimum Provinsi (UMP) 2026.

27. Republika. (2024, December 2). Daftar Proyeksi UMP 2025, Jakarta Terbesar dan Jateng Terendah.

28. Tempo.co. (2025, November 5). Angka Pengangguran per Agustus 2025 Tembus 7,46 Juta Orang.