Minimum Wages and Changing Wage Inequality in Indonesia

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No. 196 | March 2010
ADB Economics Working Paper Series No. 196

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Abstract

Wage inequality in Indonesia has decreased over the last two decades. This is in contrast to many developed and developing countries, which have largely seen an increase in wage inequality over this time period. This paper investigates the extent to which minimum wage laws may have contributed to the decrease in inequality over the distribution of wages by looking at changes in individual wages, hours of work, and employment between 1993 and 2007. Besides examining wage inequality in formal sector work we also examine changes in income inequality for the self-employed sector, which comprises a substantial portion of the working population in Indonesia. We find that minimum wages are a significant determinant of increases in monthly wages for the population below the minimum wage line in the formal sector, but not the informal sector. Adverse effects are observed in terms of increases in hours of work for individuals with wages near the minimum wage line. While there are no significant effects on overall employment, we find negative effects on formal sector employment for individuals throughout the wage distribution. The results suggest that minimum wage legislation has played a role in reducing wage inequality in Indonesia.
I. Introduction

Minimum wage policy is a common and popular tool of policy makers to improve the circumstances of the poor relative to the rich. Since the 1990s Indonesia has implemented a fairly aggressive minimum wage policy with frequent changes. While many developed and developing countries have had an increase in formal sector wage inequality since the 1990s, Indonesia in contrast had experienced a decline in wage inequality as seen in Figure 1. Given that high wage inequality is potentially inefficient and leads to a decrease in productivity, it is important to identify whether policies such as minimum wages can potentially mitigate or reduce overall wage inequality. This paper’s objective is therefore to investigate whether Indonesia’s minimum wage policy potentially contributed to decreasing wage inequality, and to determine the extent to which the observed trends extend from the formal sector to the informal sector.

Indonesia is an interesting case study for examining the effects of minimum wages for a number of reasons. First, the government aggressively promoted minimum wage policies as an important labor policy in the 1990s. In the 1990s alone, the level of minimum wages tripled in nominal terms and doubled in real terms. Second, there is no national level of minimum wages, with each of the 26 provinces setting its own minimum wage each year. This provides substantial variation to the investigation of the impacts of minimum wage policy on rising wages in comparison to countries such as Canada or the United States where minimum wages are set by the federal government and are not frequently changed from year to year. Finally, in the past few years, Indonesia’s political process has become even more decentralized. This is expected to result in greater variation in regional policies, including those pertaining to minimum wages.

While other studies exist on minimum wages in Indonesia, almost all have focused solely on the formal urban sector. We argue that this is insufficient, especially given that the informal sector in Indonesia accounts for roughly 30% of the working population. To complement the findings of previous papers we examine the role of minimum wage policies by answering the following questions:

(i) Does Indonesian minimum wage policy contribute to the observed decreases in wage inequality?

(ii) If minimum wage policy is driving these decreases in inequality, how much do the self-employed sector wages benefit from these increases in minimum wages?
(iii) What were the impacts of minimum wage legislation on employment both in the formal sector and in the overall labor market?

Data from the Indonesian Family Life Surveys (IFLS) are used to answer these questions. The IFLS data is unique in that it allows us to examine trends in individual wages both in the formal sector and informal sector. This is significant given that the informal sector comprises a large fraction of the working population of Indonesia. Moreover, the panel nature of the IFLS allows us to more precisely determine how minimum wage laws impact the individual rather than the aggregated overall population within a province. As a result, we are able to provide a more complete picture of the overall effects of the minimum wage laws not only on wages, but on hours worked and employment. More generally, examining these issues is important as they provide a more detailed assessment of the extent to which important impacts are omitted when looking only at formal sector workers in developing countries.

One of the primary challenges in evaluating the impact of minimum wage laws on the individual in Indonesia is that different provinces have different degrees of enforcement. In addition, examining the average effects of minimum wage laws on the population ignore the fact that while the mean effect of minimum wage laws on labor factors may not have changed, there may have been changes on the tail ends of the distribution that have increased or decreased wage inequality. We circumvent these two problems by including province level fixed effects and indicators for the position of the individual within the wage distribution. Our regression results find that changes in minimum wage laws are an important and relevant factor contributing to attenuation of wage differentials between the upper and lower parts of the wage and income distributions.

In the remainder of the paper, Section II overviews the literature related to wage inequality both in Indonesia and other countries. Section III provides some information regarding minimum wage laws. Section IV describes the data we used. Section V examines some of the basic descriptive facts related to wage inequality based on the data that we are using. Section VI describes the method for analysis. Section VII then discusses the results from our empirical analysis. Finally, Section VIII concludes.

II. Related Literature

The focus on minimum wages as an effective policy tool arises in part over concern with rising wage inequality. Central to the concerns over increasing dispersion in individual wages is that it is often indicative of an increasing departure from social welfare maximization. That is, wage inequality can signal increasing social poverty of poor countries, and that the majority who are improving their economic conditions are not those who need it most. Identifying the reasons and causes of wage inequality enables us
to develop and formalize the appropriate policy tools needed to combat increasing wage inequality. However, the overall literature has little consensus on the causes of wage inequality, and often, the contributions to wage inequality are country-specific. Moreover, as cited by Hyclak (2000), both market and institutional forces contribute to changes in wage inequality. This section discusses the relevant literature regarding causes of wage inequality and why it is important to reexamine the possible contribution of minimum wage laws on changing wage inequality in Indonesia.

Since the 1990s, many developed and developing countries have seen a significant increase in wage inequality and earnings between the 10th and 90th percentiles of wage workers as documented by Juhn, Murphy, and Pierce (1993). Studies such as Bartel and Sicherman (1999) and Kremer and Maskin (1996) have examined micro-level data within countries and have attributed rising wage inequality to skill-biased technological change, which has greatly increased the returns to having a skilled workforce, and reduced the value of the unskilled workforce. Bound and Johnson (1995) found that both increased skill and skill-biased technological change were major factors during the 1980s, contributing to increased wage inequality in the US. However, a review by Card and Dinardo (2002) found that skill-biased technological change cannot completely explain the rising wage inequality that has occurred over the past three decades. Studies such as Lee (1999) show that a large portion of the increase in inequality could be attributed to other factors such as the falling minimum wage, especially for the lower tail of the wage distribution. Yet, skill-biased technological change is still believed to account for a significant and relevant portion of increasing wage inequality with Autor, Katz, and Kearney (2008) suggesting a modified version of the skill-biased technological change model that better explains the trends over the years compared to past models.

Besides the changing labor market value of the skilled population, cultural factors and job-related factors may play a role especially in developing countries. Camps et al. (2006) focuses on developing countries, finding that decreases in the gender gap can explain much of the decreases in wage inequality. McCall (2000) looks at within-group wage inequality that is not explained through factors of skill-biased technological change and government intervention, finding that job insecurity, such as those that exist within the self-employed sector, is associated with high levels of wage inequality especially for women.

Other institutional factors that may contribute to changes in wage inequality are the presence of unions, openness to foreign direct investment (FDI), and minimum wages. Unions, which are prevalent in many developed countries, have received significant attention. Lemieux (1998) focused on the role of unions in contributing to wage inequality in the US, finding that unions can explain about a third of the growth in wages at the top end of the distribution of wages, but that other existing explanations are also substantial factors in rising wage inequality. However, the effect of unions is not uniform across countries. For example, Popli (2007) finds that rising wage inequality in Mexico was actually due to decreased unionization within the country. Dickens et al. (2007) using
micro-level data from 16 different countries found that union presence explained some of differences in wage rigidities across countries.

Another factor that is hypothesized to contribute to wage inequality is institutional factors affecting the degree of FDI, openness, and trade. Figinia and Gorg (2006) use country-level data to show that in developing countries FDI increases wage inequality up to a certain point, after which it leads to decreasing wage inequality. In contrast to developing countries, FDI is found to only decrease wage inequality in developed countries. These findings are further supported by Wood (1997) who found that in East Asia a greater degree of openness to trade and FDI led to decreases in wage inequality. On the other hand, Gourdon (2007) found that trade liberalization actually increased wage inequality in developing countries.

Finally, one of the most cited and closely examined sources in the literature for wage inequality is the existence and changes to minimum wage policies. In the context of a developed country, analyzing the effects of minimum wage laws is generally much simpler and more straightforward given that these laws are generally enforced and the majority of the working population are in the formal sector, which is covered by minimum wage laws. In the US for instance, Neumark, Schweitzer, and Wascher (1999 and 2005) find that the minimum wage tends to increase the proportion of families below or near the poverty line, while MaCurdy and McIntyre (2001) found that minimum wage laws were on net more likely to negatively affect the poor. An important result is that in developed countries minimum wage laws are generally found to increase wages and encourage take-up of employment by individuals who are mainly from nonpoor households—specifically youth from middle-class households. Currie and Fallick (1996), for example, found that the effects of minimum wages on employment transitions of youth lead some youth who would have otherwise chosen to remain in school to enter the labor market.

In developing countries, low enforcement of minimum wage laws and the presence of a high sector of the working population existing in the informal sector may contribute to minimum wage laws playing a lesser role in wage inequality. Miles and Rossi (2001) find that in Uruguay increases in wage inequality are partially due to decreases in real minimum wages, but changes in the skill premium account for the majority of the increases in wage inequality. A number of papers have looked at the effects of minimum wage laws Lemos (2004) and Gindling and Terrell (2005) have found that minimum wage laws have a positive effect on raising wages in both the formal and informal sectors in developing countries with slight negative effects on overall employment in the formal sectors.

Our paper seeks to describe the effects of changes in minimum wage laws on wages in Indonesia. Several studies have explicitly tried to examine the effects of minimum wage laws in the context of Indonesia, most of them only focusing on urban formal sectors. Islam and Nazara (2000) took an indirect approach to claiming that minimum wages in
Indonesia were not necessarily a bad policy by examining firm profitability. They found that such laws did not lead to erosion in business profitability even after controlling for endogeneity of minimum wages. Rama (2001) uses the SAKERNAS data to document the impact of the substantial rise in real minimum wages in the first half of the 1990s on wages and formal employment for full-time workers. He found very little employment effects: by treating minimum wage increases as exogenous, the province-level analysis found that the minimum wage laws had the effect of raising the average wage by less than 15% and decreasing employment by at most 5%, thus leading to the conclusion that on average, minimum wages were beneficial for formal sector workers, but that these effects were found to be disproportionately shared by smaller firms who are heavily reliant on low-skilled labor and are less likely to invest in technology. Suryahadi et al. (2003) found a somewhat larger effect. Controlling for other factors that might affect employment, they estimated that a 100% increase in minimum wages would lead to 11.2% decrease in employment for urban workers. One reason they use to explain this discrepancy is that minimum wages have been increasingly binding over the years. However, they also report that the elasticity of employment to minimum wages varies across groups. Women and youth are among those who are most negatively impacted, while white-collar workers actually benefit from an increase in minimum wages. Finally, Bird and Manning (2008) investigated how minimum wages may affect households in a closed system where they are not only directly affected in the labor market by minimum wage laws, but are also affected through price increases in goods produced by firms subject to minimum wage laws. By assuming no loss in employment they find that minimum wages would boost household income for 21% of the population, but leave 79% of the population worse off due to price increases (2002 SAKERNAS), leading to the conclusion that minimum wages are not necessarily a good antipoverty tool in developing countries.

However, one of the main limitations of these past examinations of minimum wage laws, and specifically for Indonesia, is that they fail to take into account an important and relevant sector of the working population in developing countries—specifically the self-employed sector. One of the studies that have explicitly tried to examine wage inequality in both the formal and self-employed sector is Albarran, Carrasco, and Martinez-Granado (2009) who examined the evolution of wages in both sectors of Spain. A secondary limitation of some of the existing studies on Indonesia is that they are not able to adequately examine how minimum wage laws affect an individual.

We circumvent the limitations of past studies by using panel-level data from the IFLS. Panel data on individuals enables us to control for changes in individual skill and increases in the skill premium, thus allowing for more direct identification of the contributions of minimum wage laws in changes in wages and wage inequality in Indonesia. As minimum wages are likely to affect individuals differently across the wage distribution, and because we are interested in seeing the impact of such laws on decreased wage inequality, we follow the approach by Neumark, Schweitzer, and Wascher (2005) that allows for a nonlinear effect of changes of minimum wages on
changes in individual wages and other employment-related factors.\(^1\) By taking such an approach and examining the effects in both the formal and informal sector we expect to develop a more complete picture of the effects of minimum wage laws on workers in Indonesia.

### III. Indonesia’s Minimum Wage Laws

Though Indonesia’s minimum wage legislation dates back to the 1970s, the federal government has not always actively participated in minimum wage legislation. Minimum wage levels are usually set by respective area wage councils for each province. The levels at which minimum wages are set are typically based on estimates of the amount of money required to cover basic needs. However, anecdotal evidence suggests that labor unions may possibly play a part in determining the level of minimum wages.\(^2\) In general, the minimum wage laws are intended to cover formal sector workers who work 40 hours per week and 7–8 hours per day.

Unlike developed countries, where minimum wage legislations are well defined and substantial penalties are levied for noncompliance, much of the minimum wage legislation in Indonesia is left open to interpretation and penalties are comparatively small. In 1997, the fine for noncompliance was only Rp100,000 (equivalent to $50 USD in 1997), independent of the number of workers within a firm that were receiving less than the minimum wage (Rama 2001). As a result, the penalty for noncompliance is fairly negligible compared to overall revenue and costs for large companies. Moreover as the legislation does not have clearly defined rules many companies tend to only superficially comply with the minimum wage legislation. For example, minimum wage standards are intended to encompass only basic salary and facilities. However, companies may include extra benefits provided to individuals such as food and transporation in their wage computation, meaning the overall take home pay of the worker is less than it should be if these firms adhered to the intended standards. Overall, an examination of formal sector wages show substantial noncompliance of companies with the minimum wage legislation accounting for at least 10–25% of formal sector workers.

However, over time the enforcement of minimum wage legislation has increased and become a particularly prominent component of governmental policy. In particular, the 1990s were a substantial turning point in minimum wage legislation with both increased enforcement and sharp increase in real minimum wages over a short period of time. This was in part propelled by the belief that wages were lagging relative to the economic

\(^1\) In this study of the US, the authors allow labor market adjustments to minimum wage in terms of wages, hours, employment, and labor income to vary by the initial income of workers. They found that minimum wage laws had the greatest impact on workers near the minimum wage line.

\(^2\) For example the Jakarta Globe reported that the Indonesian Trade Union Confederation asked its members to lobby for a 2010 minimum wage in accordance with local living costs (Antara 2009).
growth of the country. Table 2 shows that real monthly wages increased from Rp201530 to Rp317922 between 1993 and 2007 using year 2000 as the reference base. Thus, during our period of analysis of 1993–2007 it seems reasonable to expect that minimum wage legislation may have had some impact on overall wages and have led to decreases in wage inequality between the 10th and 90th percentiles of the income distribution within Indonesia.

IV. Data

Our main analysis relies on the Indonesian Family Life Surveys. The IFLS contains a subset of individuals who were surveyed over time, allowing us to investigate transitions between jobs and other dynamics. Unlike many surveys it is unique in that it contains earnings of the self-employed sector and thus allows us to more completely capture the working population within Indonesia. This is especially important given that the self-employed sector accounts for a substantial portion of the working population. In general, the IFLS data contains a variety of measures designed to study behavior, health, well-being, and labor outcomes. Thus far, four waves of the IFLS are completed starting with IFLS1 in 1993, IFLS2/2+ in 1997 and 1998 to study the Asian financial crisis, IFLS3 in 2000, and IFLS4 in 2007 and 2008. We exploit the panel nature of the data using IFLS 1, 3, and 4 to examine the effects of changing minimum wages on monthly wages, hours worked, and employment probabilities in different sectors. We ignore data from IFLS2 since wage data is not publicly available.

The IFLS employment data was cleaned according to the codebook specifications in order to develop variables consistent across the different survey years. Our analysis focuses on men and women between the ages of 15–55 years old and for which data exists in adjacent survey years. Overall, we only focused on the set of individuals who reported income, average hours worked, average weeks worked per year, and work status for a given job. In all cases, for formal sector workers we used wage salaried jobs, which include all benefits to construct measures of monthly wage income. Given that an individual reports multiple jobs we chose the job that consumes the greatest amount of a person’s time. The top 1% and bottom 1% of monthly financial earners were excluded from the sample to eliminate the presence of major outliers in the sample population.

Additional data was gathered on minimum wages and regional gross domestic product (GDP) at the province level from the ministry of finance and Indonesian National Statistical Office. To compare wages across time and provinces, all minimum wages and

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3 Alternatively assuming 22 working days per month this is approximately a change from $5.40 per day to $8.55 per day using a year 2000 conversion factor of Rp1690.62 to $1 based on 2005 purchasing power parity.
4 Formal sector employment refers to wage employment in the private sector for those who are not self-employed. While actual money portion of salary would have been more precise, less than one eighth of the data had information on this in 1993 while salary including benefits was the only measure reported in 2000.
income earnings were put into real terms using province-level GDP measures using 2000 as the base reference year. This allows us to make valid comparisons across years. However, as we have province-level deflators only for 1996–2000 we deflated or inflated the GDP deflators using the closest available year of province-level deflators, and then readjusted using national consumer price index deflators for 1993 and 2007. While there does exist job and wage data in the IFLS for the previous 5 years gathered through backward reporting an examination of this data showed that individuals generally report the same wage for each year given the job has not changed. This makes it somewhat suspect as to the accuracy of using this data. We therefore choose not to use this data in the actual analysis and focus only on the wage data reported in the same years as the survey years. Table 1 reports basic descriptive statistics of the characteristics of the working population of the IFLS.

Table 1: Basic Descriptive Statistics of Working Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Avg Age</th>
<th>Male (%)</th>
<th>Work Characteristics (%)</th>
<th>Highest Grade Completed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Formal Employ</td>
<td>Self Employ</td>
</tr>
<tr>
<td>1993</td>
<td>33.28</td>
<td>66</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>2000</td>
<td>34.36</td>
<td>64</td>
<td>45</td>
<td>33</td>
</tr>
<tr>
<td>2007</td>
<td>35.32</td>
<td>64</td>
<td>29</td>
<td>31</td>
</tr>
</tbody>
</table>

Note: Numbers based on IFLS. This table comprises statistics only for individuals who are between the ages of 25-55 and who reported primary activity as work.

While the IFLS contains a variety of questions and has a fairly largely sample population, there are some notable limitations to the IFLS. The first limitation is that it only covers 13 of the 27 provinces in Indonesia. However, these 13 provinces cover approximately 80% of the working population in Indonesia. To provide an idea of the extent by which these 13 provinces diverge from the national norm, Table 2 compares the Indonesian Labor Force Surveys (SAKERNAS), which are nationally representative samples of formal sector workers for the 13 provinces, versus the full set of provinces. Table 1 shows that there are differences and that the average real wage is generally lower in the 13 provinces and the percentage below the minimum wage is on average higher. Moreover, comparing the formal sector workers for the 13 provinces against formal sector workers from the IFLS shows that these workers are generally better off or higher up on the income distribution than those workers reported in the SAKERNAS. Finally, as is common with many panel datasets attrition is a problem with individuals dropping out over time, and could serve as one source of bias in the analysis. Despite these limitations this data is fairly extensive in scope and coverage and is believed to provide sufficient means to adequately estimate the effects of minimum wage in both the formal and informal sectors in Indonesia.
V. Descriptives of Indonesian Wages and Minimum Wages

Minimum wage laws have served as a component of Indonesian labor policy since post World War II. However, through the 1970s and 1980s minimum wages existed largely for cosmetic reasons. During this time period, despite real wages rising about 2–6% per year across all sectors, unions were tightly controlled and minimum wages were rarely enforced. However, in 1989 minimum wage laws changed substantially when new legislations were introduced to raise the minimum wage to more closely align with the imputed bundle of “minimum subsistence needs” in each province (Rama 2001).

From the 1990s, monthly minimum wages in Indonesia have risen substantially in nominal terms and, to a lesser degree, in real terms. Between 1993 and 2007, nominal minimum wages have increased more than eight-fold while real minimum wages have increased by roughly 50%. This means that the raises in the nominal wage have exceeded the increase in inflation rates (see Table 2, rows 1, 2, 3). Overall, these increases in real monthly minimum wages are much larger than those typically observed in industrialized countries over the same time period. However, the most notable trend observed in the data is the growth in average real wages at the 10th percentile of the wage distribution for full-time employed workers while full-time employed workers in the 90th percentile of the wage distribution have only seen only modest wage growth in real terms. This trend has occurred over time for full-time formal sector workers as seen in Figure 1, which shows that wage growth indexed to 1990 levels is smaller at the 90th percentile compared to wage growth at the 10th percentile, although by 2007 the differentials between the 90th and 10th percentile have risen from 2000 levels. However, Table 2 shows that there is a much more distinct trend in wage growth in the informal or self-employed sector, with the ratio of the 90th to 10th percentile wages decreasing from 19.15 in 1993 to 13.62 in 2007. Since it is difficult to directly analyze the mechanisms through which inequality decreased between the 10th and 90th percentiles of the income distribution we focus instead on asking whether increases in the minimum wage are a potential contributor to decreases in inequality. Table 3 provides actual measures of inequality. The Gini coefficient captures inequality of wages in the different cross-sectional samples. The data shows that wage inequality has decreased between 1993 and 2007 as shown by the smaller Gini coefficient in 2007 versus 1993 in the IFLS data, but wage inequality in 2007 has increased over 2000 levels. To more completely examine and identify the impacts of changes in minimum wages that arise on job characteristics depending on where initial wages lie in relation to initial minimum wages, we employ a regression framework that exploits aspects of the IFLS panel data.
Table 2: Monthly Wage Statistics

<table>
<thead>
<tr>
<th>Statistic</th>
<th>SAKERNAS</th>
<th>SAKERNAS (13 Prov)</th>
<th>IFLS (Formal)</th>
<th>IFLS (Self-Emp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Minimum Wage</td>
<td>67780</td>
<td>221420</td>
<td>592438</td>
<td>67111</td>
</tr>
<tr>
<td>Real Minimum Wage</td>
<td>201530</td>
<td>223937</td>
<td>317922</td>
<td>199655</td>
</tr>
<tr>
<td>Percent below Minimum Wage</td>
<td>24%</td>
<td>20%</td>
<td>44%</td>
<td>24%</td>
</tr>
<tr>
<td>Average Nominal Wage</td>
<td>160021</td>
<td>457503</td>
<td>918506</td>
<td>156836</td>
</tr>
<tr>
<td>Average Real Wage</td>
<td>474804</td>
<td>461880</td>
<td>486364</td>
<td>465441</td>
</tr>
<tr>
<td>Average Real Wage (p10)</td>
<td>129356</td>
<td>156464</td>
<td>136914</td>
<td>128279</td>
</tr>
<tr>
<td>Average Real Wage (p90)</td>
<td>830038</td>
<td>833538</td>
<td>907740</td>
<td>801721</td>
</tr>
</tbody>
</table>

Note: 1) This table comprises statistics only for individuals who are between the ages of 25-55 and who reported their primary activity as work. Both the SAKERNAS and IFLS statistics are reported for individuals who responded that they work >= 35 hours per week and more than 30 weeks per year.
2) Real monthly minimum wages and wages are deflated using the year 2000 as the base year and reflect amounts in Rupiah.
3) Based on 2005 purchasing power parity, Rp1690.62 is equivalent to $1 in 2000.
4) Bottom 1% and top 1% of financial earners in any given year were dropped from the data in the IFLS due to eliminate outliers especially in top 1% of financial earners.
Figure 1: Indexed Real Monthly Wages

Note: Based on SAKERNAS data with base year 1990 = 1.

Table 3: Inequality Measures of Individual Monthly Wages

<table>
<thead>
<tr>
<th></th>
<th>IFLS (Formal)</th>
<th>IFLS (Self-Employment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative Mean Deviation</td>
<td>0.332</td>
<td>0.298</td>
</tr>
<tr>
<td>Coefficient of Variation</td>
<td>1.051</td>
<td>0.839</td>
</tr>
<tr>
<td>Standard Deviation of Logs</td>
<td>0.9232</td>
<td>0.817</td>
</tr>
<tr>
<td>Gini Coefficient</td>
<td>0.4617</td>
<td>0.409</td>
</tr>
</tbody>
</table>

Note: See Table 2 notes.

VI. Methods and Results

Our main objective is to analyze the effects of minimum wage laws on wages, hours worked, and employment of workers in Indonesia. The goal of this analysis is to provide some insight on the degree to which these laws have led to a decrease in wage inequality and the extent to which minimum wage laws impact people with different characteristics and who work in different sectors. We use the methodology proposed by Neumark, Schweitzer, and Wascher (2004) to measure how changes in minimum wages, $MW$, from period 1 to period 2 affect the percentage change in individual income from period 1 to period 2 depending on the period 1 distribution of wages, $w$.

The basic regression specification to investigate change in wages is as follows:
\[
\frac{w_{2py}^2 - w_{1py}^1}{w_{1py}^1} = \alpha + \sum_j \beta_j \frac{MW_{2py}^2 - MW_{1py}^1}{MW_{1py}^1} D(w_{1py}^1, MW_{1py}^1, j) + \sum_j \phi_j D(w_{1py}^1, MW_{1py}^1, j) \frac{w_{1py}^1}{MW_{1py}^1} + \sum_j \gamma_j D(w_{1py}^1, MW_{1py}^1, j) + \delta X_{ipy} + P_y Y_y \varphi + \varepsilon_{ipy}
\]

In this specification, the impact of monthly minimum wages is allowed to vary nonlinearly over the wage distribution. We isolate the effect of changes in monthly minimum wages in period 1 in province \( p \) in year \( y \) for different levels of an individual \( i \)’s monthly wage income by creating dummy variables \( D(w_{1py}^1, MW_{1py}^1, j) \) indicating the amount by which an individual’s income in period 1 is less than or greater than the provincial minimum wage in period 1 with \( j = 1, \ldots, 5 \) in our specifications. The specification (1) provides flexibility to control for other potential determinants of changes in wages. \( X_{ipy} \) represents other characteristics associated with an individual’s characteristics and conditions such as age, gender, and education that may have led to changes in wages primarily due to societal or other institutional factors. We also include factors that may have changed over the time period and that can cause a change in wages such as changes in education. In our specification, age essentially represents a cohort effect that picks up some variations in an individual’s initial level of work experience. The education variable captures factors related to skill-biased technological change. Cultural changes due to greater acceptance and equality of women in the work force are captured through the gender dummy variable. We include 13 provincial dummies interacted with year dummies (i.e., 1993 and 2000), allowing growth in wages between the years to vary across different provinces and time periods. This accounts for varying province-level factors related to degree of FDI and presence of labor unions within these regional areas. These province-level and year dummies also take into account that some provinces may have a higher degree of enforcement of minimum wage laws than other provinces leading to greater effects in some provinces than in others and control for any other omitted variable bias not explained by existing control variables.

The main parameters of interest in the regression specifications are the \( \beta_j \)'s, where \( \beta_j \) captures the effect of a percentage change in minimum wage levels on the percent change in the dependent variable relative to the baseline level of period 1. The \( \beta \)'s are identified through province level and time variations in minimum wages after controlling for individual specific factors. By using individual level panel data, as opposed to province-level data, we are able to investigate the direct effects of minimum wage policies while eliminating the need to attribute or account explicitly for other concepts such as openness. The specification also allows us to incorporate flexibility for skill-biased technological change, thus separating out the effects of minimum wage changes on change in wages and employment. The panel data and the subsequent regression specification provide the main advantage of allowing us to eliminate selection bias that arises due to unobserved factors such as an individual’s achievement, intellect, and work ethic, which are correlated with an individual’s observed wages.
In subsequent specifications to investigate changes in hours worked, we replace the dependent variable percent change in wages with percent change in average weekly work hours between period 1 and period 2. For investigating employment level changes we create a variable that takes the value of −1, 0, 1, where −1 denotes a change employment to unemployment, 0 denotes no change in employment status, and 1 denotes a change from unemployment to employment. Finally, for formal employment level changes we create a similar variable where −1 instead denotes a change from formal employment to self-employment/unemployment. In all cases, coefficients are estimated using ordinary least squares. Thus for the employment and formal employment level regressions we are essentially running linear probability models.

The specifications are run for three different samples: (i) full working population, (ii) working population that works in the formal sector in period 1, and (iii) working population that works in the self-employed sector in period 1. Dividing the analysis into these different samples allows us to observe the overall effect of minimum wage changes on the different job sectors. Furthermore, by examining separately the effect on the self-employed sector we can see whether there were some spillover effects to this sector even though the minimum wage laws primarily applied to formal sector work.

A. Distributional Effects of Minimum Wages on Workers in the Formal and Informal Sectors

Table 4 shows the main regressions that combine both the formal and informal sectors, while Figure 2 shows the impact of a 10% change in minimum wages over the distribution of wages for each of the dependent variables. We find that changes in minimum wages significantly explain growth in wages at the bottom end of the distribution of wage workers with wages less than 90% of the minimum wages in period 1 representing either 1993 or 2000. In particular, a 10% change in minimum wages increased real wages that were below the 90% of minimum wage levels by $1.431 \times 0.10 = 14\%$, but is accompanied by approximately 5% increase in hours worked by these individuals. The minimum wages, however, have no significant effect on changes in wages of individuals that had wages that were 90% or above the minimum wage line in period 1. Although the monthly wages for low-wage workers that are roughly at the minimum wage line of their provinces (i.e., between 90% to 110% of the minimum wage line) do not significantly increase, increases in minimum wages do lead to a significant increase in hours of work for these individuals by about 10% for every 10% increase in minimum wages. While there is no significant increase in employment or unemployment from increases in the minimum wage, minimum wages do have a significantly negative impact on the number of workers that are employed in formal sector work. This effect occurs for workers that have wages 90% and below the minimum wage line and workers who have wages that are between 110% to 150% of the minimum wage line. In particular, a 10% increase in minimum wages leads to a 1.2% drop in individuals employed in the formal sector who have wages less than 90% of the minimum wage line in period 1.
### Table 4: Impact of Changes in Monthly Minimum Wages, All Workers

<table>
<thead>
<tr>
<th></th>
<th>Monthly Wages</th>
<th>Weekly Hours</th>
<th>Employment</th>
<th>Formal Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.0 &lt; r \leq 0.9$</td>
<td>1.431***</td>
<td>0.510**</td>
<td>0.003</td>
<td>-0.123***</td>
</tr>
<tr>
<td></td>
<td>[0.501]</td>
<td>[0.222]</td>
<td>[0.019]</td>
<td>[0.045]</td>
</tr>
<tr>
<td>$0.9 &lt; r \leq 1.1$</td>
<td>0.149</td>
<td>0.987***</td>
<td>0.02</td>
<td>-0.027</td>
</tr>
<tr>
<td></td>
<td>[0.715]</td>
<td>[0.316]</td>
<td>[0.027]</td>
<td>[0.065]</td>
</tr>
<tr>
<td>$1.1 &lt; r \leq 1.5$</td>
<td>0.438</td>
<td>-0.019</td>
<td>0.003</td>
<td>-0.112**</td>
</tr>
<tr>
<td></td>
<td>[0.619]</td>
<td>[0.274]</td>
<td>[0.023]</td>
<td>[0.055]</td>
</tr>
<tr>
<td>$1.5 &lt; r \leq 2.5$</td>
<td>0.437</td>
<td>0.086</td>
<td>-0.01</td>
<td>-0.069</td>
</tr>
<tr>
<td></td>
<td>[0.569]</td>
<td>[0.252]</td>
<td>[0.021]</td>
<td>[0.051]</td>
</tr>
<tr>
<td>$2.5 &lt; r         $</td>
<td>0.319</td>
<td>0.018</td>
<td>-0.004</td>
<td>-0.046</td>
</tr>
<tr>
<td></td>
<td>[0.547]</td>
<td>[0.242]</td>
<td>[0.021]</td>
<td>[0.049]</td>
</tr>
<tr>
<td>Observations</td>
<td>9451</td>
<td>9451</td>
<td>12383</td>
<td>12383</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.157</td>
<td>0.021</td>
<td>0.011</td>
<td>0.048</td>
</tr>
</tbody>
</table>

Note: $r$ = monthly wages/monthly minimum wages, which is the ratio between an individual’s monthly wages to the provincial minimum wage. To correspond with equation (1) it represents $D(w, MW, j)$. Variables included but not shown in the estimation are change in education, female dummy, 3 period 1 education dummies, period 1 age and age squared, interaction fixed effects between period 1 year and province, as well as a constant term.

### Figure 2: Percent Change from a 10% Increase in Minimum Wages, All Workers

Focusing on the individuals employed in the formal sector in period 1, Table 5 shows that minimum wages had an even greater effect on the workers that had wages that were less than 90% of the minimum wage line, significantly raising their wages by almost 20%.
for a 10% increase in minimum wages (see Figure 3). Focusing on this set of workers shows that there are significant negative formal employment effects throughout the wage distribution with the exception of workers that make above 250% of the minimum wage line. Workers below 90% of the minimum wage line have a 1.6% drop in employment in the formal sector due to an increase of 10% in minimum wages, while workers between 150% to 250% of the minimum wage line experience a 2.5% drop. We do not observe any significant effects of minimum wages on wages for self-employed workers near or below the minimum wage line in period 1 as seen in Table 6. Only hours worked seem to increase significantly for the self-employed workers near the minimum wage line with an increase of 19% for every 10% increase in minimum wages as seen in Figure 4. This possibly arises due to a more competitive operating environment in the self-employed sector, which requires greater effort (i.e., hours worked) due to formal sector workers moving into the self-employed sectors as a result of increasing minimum wages. The results that we find in the Indonesian self-employed sector are in contrast to much of the literature on the effects of minimum wages in developing countries that actually observe an increase in wages for those in the self-employed sectors. This phenomenon documented in such papers as Gindling and Terrell (2005) is known as the lighthouse effect, where the new minimum wage is used as a reference point in the informal sector or self-employed sector for setting wages and income.

Table 5: Impact of Changes in Minimum Wages Formal Workers in Period 1

<table>
<thead>
<tr>
<th>Monthly Wages</th>
<th>Weekly Hours</th>
<th>Employment</th>
<th>Formal Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0 &lt; r &lt;= 0.9</td>
<td>2.016***</td>
<td>0.333*</td>
<td>0.018</td>
</tr>
<tr>
<td></td>
<td>[0.488]</td>
<td>[0.193]</td>
<td>[0.027]</td>
</tr>
<tr>
<td>0.9 &lt; r &lt;= 1.1</td>
<td>0.41</td>
<td>0.176</td>
<td>0.021</td>
</tr>
<tr>
<td></td>
<td>[0.699]</td>
<td>[0.277]</td>
<td>[0.040]</td>
</tr>
<tr>
<td>1.1 &lt; r &lt;= 1.5</td>
<td>0.401</td>
<td>0.045</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>[0.588]</td>
<td>[0.233]</td>
<td>[0.033]</td>
</tr>
<tr>
<td>1.5 &lt; r &lt;= 2.5</td>
<td>0.529</td>
<td>-0.141</td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td>[0.542]</td>
<td>[0.215]</td>
<td>[0.030]</td>
</tr>
<tr>
<td>2.5 &lt; r</td>
<td>0.421</td>
<td>-0.189</td>
<td>-0.004</td>
</tr>
<tr>
<td></td>
<td>[0.521]</td>
<td>[0.206]</td>
<td>[0.029]</td>
</tr>
<tr>
<td>Observations</td>
<td>5413</td>
<td>5413</td>
<td>7013</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.193</td>
<td>0.058</td>
<td>0.015</td>
</tr>
</tbody>
</table>

* significant at 10%; ** significant at 5%; *** significant at 1%.

Note: Standard errors in brackets. r = monthly wages/monthly minimum wages, which is the ratio between an individual’s monthly wages to the provincial minimum wage. To correspond with equation (1) it represents D(w,MW,j). Variables included but not shown in the estimation are change in education, female dummy, 3 period 1 education dummies, period 1 age and age squared, interaction fixed effects between period 1 year and province, as well as a constant term.
Figure 3: Percent Change from a 10% Increase in Minimum Wages, Formal Workers

*Denotes significance at 10% level.
Note:  \( r \) is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.

Figure 4: Percent Change from a 10% Increase in Minimum Wages, Self-Employed Workers

*Denotes significance at 10% level.
Note:  \( r \) is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.
B. Distributional Effects of Minimum Wages on Select Populations

Which marginalized groups and people working in particular firms seem to have seen the greatest impact from the minimum wages? We further examine the effects for gender in formal and informal sectors as well as those working in small firms (<= 5) versus large firms (>5) by running the above regression specification on these subsets of the population. While we do not report the various estimates from the regressions in this paper we do provide various figures corresponding to the regression estimates. Our regression estimates find a much greater impact on females, with wages rising 26% from a 10% increase for women that made < 90% of the minimum wage line; meanwhile, men with wages in the same part of the distribution saw a smaller increase of 20% in their wages as seen in Figures 5 and 6. Thus, minimum wages may have worked to decrease some of the gender inequities of poorer workers. However, we also observe that women disproportionately lost work in the formal employment sector with a decrease of 4.37%, while males experienced no significant loss in formal employment work. If formal sector employment is seen as more productive activities that allow individuals to smooth consumption, this may present a serious concern.

Figure 5: Percent Change from a 10% Increase in Minimum Wages, Formal Female Workers

*Denotes significance at 10% level.
Note:  \( r \) is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.

5 The actual outputs from the regressions are available from the authors on request.
Figure 6: Percent Change from a 10% Increase in Minimum Wages, Formal Male Workers

- Monthly Wages
- Weekly Hours
- Employment
- Formal Employment

Percent Change

-0.6 -0.4 -0.2 0 0.2 0.4 0.6

0.0<r<=0.9* 0.9<r<=1.1 1.1<r<=1.5 1.5<r<=2.5 2.5<r

*Denotes significance at 10% level.
Note: r is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.

Figure 7: Percent Change from a 10% Increase in Minimum Wages, Self-Employed Female Workers

- Monthly Wages
- Weekly Hours
- Employment
- Formal Employment

Percent Change

-0.6 -0.4 -0.2 0 0.2 0.4 0.6

0.0<r<=0.9* 0.9<r<=1.1* 1.1<r<=1.5 1.5<r<=2.5 2.5<r

*Denotes significance at 10% level.
Note: r is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.
We also look at whether there was differential effects on wages depending on whether a worker was in a very small firm or was working in a larger firm (>5 people) as seen in Figures 9–12. In general, the division between formal sector workers dependent on firm size does matter in terms of the overall change in wages due to an increase in the minimum wage, with formal workers in larger firms experiencing a 30% increase in wages compared to no significant increase in wages for formal workers in smaller firms due to a 10% increase in minimum wages. However, for self-employed workers working in firms with > 5 people it seems that the minimum wage also has a real impact. A 10% raise in minimum wages serves to increase a self-employed worker’s wages by 34% for individuals who made less than 90% of the minimum wage in period 1. However, for comparatively smaller firms with <= 5 workers, there was no effect.
Figure 9: Percent Change from a 10% Increase in Minimum Wages, Formal Workers in Firm > 5

Table 6: Impact of Changes in Minimum Wages, Self-Employed Workers in Period 1

<table>
<thead>
<tr>
<th></th>
<th>Monthly Wages</th>
<th>Weekly Hours</th>
<th>Employment</th>
<th>Formal Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0 &lt; r &lt;= 0.9</td>
<td>0.843</td>
<td>0.639</td>
<td>-0.018</td>
<td>-0.008</td>
</tr>
<tr>
<td></td>
<td>[0.964]</td>
<td>[0.441]</td>
<td>[0.025]</td>
<td>[0.044]</td>
</tr>
<tr>
<td>0.9 &lt; r &lt;= 1.1</td>
<td>-0.311</td>
<td>1.920***</td>
<td>0.021</td>
<td>0.041</td>
</tr>
<tr>
<td></td>
<td>[1.362]</td>
<td>[0.624]</td>
<td>[0.037]</td>
<td>[0.064]</td>
</tr>
<tr>
<td>1.1 &lt; r &lt;= 1.5</td>
<td>0.377</td>
<td>-0.111</td>
<td>0.008</td>
<td>0.063</td>
</tr>
<tr>
<td></td>
<td>[1.224]</td>
<td>[0.560]</td>
<td>[0.032]</td>
<td>[0.056]</td>
</tr>
<tr>
<td>1.5 &lt; r &lt;= 2.5</td>
<td>0.056</td>
<td>0.32</td>
<td>-0.027</td>
<td>0.054</td>
</tr>
<tr>
<td></td>
<td>[1.131]</td>
<td>[0.518]</td>
<td>[0.029]</td>
<td>[0.051]</td>
</tr>
<tr>
<td>2.5 &lt; r</td>
<td>0.112</td>
<td>0.287</td>
<td>0.002</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>[1.090]</td>
<td>[0.499]</td>
<td>[0.029]</td>
<td>[0.050]</td>
</tr>
</tbody>
</table>

Observations: 4036  4036  5368  5368
R-squared: 0.147  0.21  0.012  0.035

* significant at 10%; ** significant at 5%; *** significant at 1%.

Note: Standard errors in brackets. r = monthly wages/monthly minimum wages, which is the ratio between an individual’s monthly wages to the provincial minimum wage. To correspond with equation (1) it represents D(w,MW,j). Variables included but not shown in the estimation are change in education, female dummy, 3 period 1 education dummies, period 1 age and age squared, interaction fixed effects between period 1 year and province, as well as a constant term.
Figure 10: Percent Change from a 10% Increase in Minimum Wages, Formal Workers in Firm <= 5

*Denotes significance at 10% level.
Note: $r$ is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.

Figure 11: Percent Change from a 10% Increase in Minimum Wages, Self-Employed Workers in Firm > 5

*Denotes significance at 10% level.
Note: $r$ is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.
Looking at the differences between urban and rural workers, we see in Figures 13–16 that there is no effect from changes in the minimum wage on formal urban workers, while there are significant decreases in formal employment due to increases in the minimum wage. Surprisingly, despite finding no effect of minimum wages in the urban formal sector we find that there is a real positive effect in the rural formal sector with people earning below 90% of the minimum wage line in period 1, with workers experiencing a 33% increase in their monthly wages from a 10% increase in monthly minimum wages. However, rises in minimum wages are also accompanied by a significant decrease in formal sector employment. No effects on wages are seen for workers that are in the self-employed urban or rural sectors in period 1.
Figure 13: Percent Change from a 10% Increase in Minimum Wages, Formal Urban Workers

*Denotes significance at 10% level.
Note: \( r \) is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.

Figure 14: Percent Change from a 10% Increase in Minimum Wages, Formal Rural Workers

*Denotes significance at 10% level.
Note: \( r \) is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.
Figure 15: Percent Change from a 10% Increase in Minimum Wages, Self-Employed Urban Workers

*Denotes significance at 10% level.
Note:  \( r \) is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.

Figure 16: Percent Change from a 10% Increase in Minimum Wages, Self-Employed Rural Workers

*Denotes significance at 10% level.
Note:  \( r \) is ratio between wage and minimum wage in year 1.
Source: Based on IFLS data.
VII. Robustness Checks

A primary concern is that the results may simply arise out of the chosen functional form specification and are not robust to variants in the specification. We employ a higher order polynomial specification up to degree 6 (depending on sample) of the $W_{ip1}/MW_{p1}$ ratio in the regression specifications as opposed to simply dummy variables indicating categorical amounts by which period 1 wages exceed period 1 minimum wages. This specification, outlined in detail in Neumark, Schweitzer, and Wascher (2004) allows for greater flexibility in the fit, but is subject to experimentation as to which polynomial degrees to include. Moreover, this specification makes straightforward interpretation of the coefficient estimates more difficult. While not explicitly reported, we found that these results were relatively consistent with the overall trends observed in our main specification above for the different sectors in both significance and sign.

We also tested whether our results were consistent with those observed in the sample that included backward reported wages for individuals up to 5 years prior to 1993, 2000, and 2007. As was mentioned the limitations were that many of the variables reported the same values when there was no job change, making it somewhat suspect that these wages accurately represent the individual’s wage and income in a given year. These regressions found no significant effect of the change in minimum wages on change in wages for all cases. This occurs even after using lagged changes in minimum wage values instead of current period changes. However, the signs on these regressions are comparable to those found in the main variables of interest for the main sample population.

Another primary concern to our analysis is that the minimum wage changes are endogenous. This is a particular concern if unions play a considerable or substantial part in the setting and enforcement of minimum wages. In this case, the observed increases in an individual’s minimum wage at the bottom part of the distribution in the formal sector may arise simply due to becoming a union member rather than actual exogenous changes in the minimum wage. As the IFLS does not have explicit data on whether an individual is part of a union, we re-estimate our specifications on a subset of individuals in larger firms and in the trade and manufacturing sectors where unions are prevalent, and compare these to the smaller firms and nonmanufacturing where unions are less likely to serve as influence over the observed wages. Surprisingly we find that minimum wage changes have no significant effect in larger firms ($\geq$25 people) with people in the manufacturing and production occupations. However, production sector workers near the minimum wage line in large firms did experience a 11% increase in wages. This seems to indicate that unions may play a part in driving the estimation results, but not for workers below 90% of the minimum wage line.
VIII. Conclusion

Wage inequality has decreased in Indonesia over the past few decades. Our results suggest that minimum wage legislation has played a significant role in reducing wage inequality in Indonesia by raising the wage levels of working individuals in the formal sector who initially have monthly wages below 90% of the monthly minimum wage line, while having no effect on working individuals with monthly wages 90% and above the monthly minimum wage line. We found these results are robust to variations in the specification. Our findings are in contrast to much of the development literature on minimum wages (Fajnzylber 2001 and Maloney and Nunez 2001) that have found that increases in the minimum wages in the formal sector often spill over to the self-employed or informal sector, as we find no such effect.

Rises in minimum wages however are accompanied by significant and substantial increases in the number of hours worked per week for those who make roughly the minimum wage. Moreover, increases in minimum wages are accompanied by a decrease in the probability of employment in the formal sector. These potentially negative effects can work to mitigate any overall benefits that may accrue from increases in the minimum wage. In particular, given that formal sector work provides more stable and consistent income streams and leads to better health outcomes as emphasized by Loewenson (1998), especially at the bottom end of the wage distribution, then gains in wages make it difficult to assess whether the lower end of the distribution of working individuals are actually better off overall given that they also experience significant decreases in formal sector employment. Bird and Manning (2008) suggest that on the whole, minimum wages really do not have a positive beneficial effect for the majority of the population. Our results seem to confirm this conclusion as working individuals throughout the wage distribution appear to lose formal sector employment. However, if policy makers are simply concerned with combating rising wage inequality in Indonesia, it does appear that marginally raising minimum wages may serve as a somewhat effective tool as the increase in monthly wages at the bottom end of the wage distribution overall outpaced any loss in monthly wages from people transitioning to the self-employed sector. Further work is needed to assess whether minimum wage legislation is truly an effective tool for combating inequities between the rich and poor populations by jointly estimating the wages, hours worked, and sector of employment.
References


Gourdon, J. 2007. Trade and Wage Inequality in Developing Countries: South-south Trade Matters. MPRA Working Paper 4177


About the Paper
Natalie Chun and Niny Khor examine whether minimum wages are an effective policy tool for mitigating wage inequality in Indonesia. The paper finds that minimum wages are a significant determinant of increases in monthly wages for the population below the minimum wage line in the formal sector, but not for workers below the minimum wage line in the informal sector. However, there are several adverse effects: (i) people in formal and informal sectors who have wages approximately at the minimum wage line work significantly more hours per week; and (ii) there are significant losses in formal sector employment for individuals throughout much of the wage distribution.

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ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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