

# Discrepancy in the Value of Labor and the Implications for Economic Inequality

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## Abstract

Discrepancy in the value of labor is a discrepancy between the price of work expressed in money or wages with the necessities of a decent life. This discrepancy results in economic inequality. The research aims to find out the discrepancy in the value of labor experienced by workers and its impact on economic inequality. This research was conducted in Yogyakarta, considering that this city has the highest level of economic inequality and is one of Indonesia's regions with the lowest minimum wage. This research method is descriptive qualitative by looking at the difference in value between decent living needs and district/city minimum wages in Yogyakarta Province. The data includes district/city minimum wages, the cost-of-living necessities, and main employment status. This study's results show a discrepancy in the value of labor in Yogyakarta in 2022 and 2023. This discrepancy can be seen through the difference between the necessities of life and the minimum wage of IDR 858,281- IDR 1,801,059. The discrepancy in the value of labor encourages economic inequality as a result of the accumulation of income received by owners of capital and the exploitation of labor experienced by workers.

Ketidaksesuaian nilai tenaga kerja merupakan ketidaksesuaian antara harga kerja yang dinyatakan dalam bentuk uang atau upah dengan kebutuhan hidup layak. Ketidaksesuaian tersebut mengakibatkan ketimpangan ekonomi. Tujuan penelitian adalah untuk mengetahui ketidaksesuaian nilai tenaga kerja yang dialami buruh dan dampaknya terhadap ketimpangan ekonomi. Penelitian ini dilakukan di Yogyakarta mengingat kota ini memiliki tingkat ketimpangan ekonomi tertinggi dan termasuk daerah dengan upah minimum terendah di Indonesia. Metode penelitian ini adalah deskriptif kualitatif dengan melihat selisih nilai antara kebutuhan hidup layak dan upah minimum kabupaten/kota di Provinsi Daerah Istimewa Yogyakarta. Data mencakup upah minimum kabupaten/kota, biaya kebutuhan hidup layak, dan status pekerjaan utama. Hasil penelitian ini menunjukkan adanya ketidaksesuaian nilai tenaga kerja di Yogyakarta pada tahun 2022 dan 2023. Ketidaksesuaian tersebut dapat dilihat melalui selisih antara kebutuhan hidup layak dan upah minimum sebesar Rp. 858.281 - Rp. 1.801.059. Ketidaksesuaian nilai tenaga kerja mendorong ketimpangan ekonomi akibat dari akumulasi pendapatan yang diterima pemilik modal dan eksploitasi kerja yang dialami buruh.

**Keywords:** components of a decent life; economic inequality; labor, labor value; minimum wage

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## Introduction

The occurrence of discrepancy in the value of labor results in the accumulation of income received by the capital owners (the bourgeoisie). Meanwhile, workers as productive forces experience massive work exploitation (Ariana and Setyadi 2023; Lamijan 2020). The discrepancy in labor values also results in the increased wealth for company owners or the bourgeoisie, while workers continue to face work exploitation (Crane et al. 2019), which leads to economic inequality in society (Bonacini, Gallo, and Scicchitano 2021). In the labor theory of value, Karl Marx argued that work is the only source of value creation and that such a value created by labor is seized by the capitalists for free (Hong 2020; Novianto 2018). Therefore, labor is the most important factor related to income distribution that impacts inequality (Latif 2019).

In his book *Ethics of Nicomachea*, Aristotle stated that fair exchange occurs when the values of commodities being exchanged are equivalent or when the value of the commodity being exchanged is equivalent to the amount of work to produce it. In its development, this statement became the foundation for the theory of work value (Apinino 2014). In the classical era, Karl Marx argued that value is measured by the amount of work. Viewing work as a commodity raises a question about estimating the price. Engels (2007) measures this by the duration, e.g., in weeks, days, or hours. In *Das Capital 1*, Karl Marx mentioned that work is the substance and eternal measure of value, but work per se has no value (Marx 1867). The value lies in the worker, who has direct contact with the capital owner in the commodity market. In other words, the commodity is the labor force. The value of such a labor force can

be estimated from the sum of commodities that a laborer needs to live, i.e., to restore, renew, and replace his labor force (Suseno 1999). In other words, what is meant by the true value of work is the value of labor. Therefore, the value of labor is associated with the ideal price of work (Marx 1867). The term 'ideal' means the wages must cover the basic needs for a decent life (Wihastuti and Rahmatullah 2018). In this case, a discrepancy in the value of labor is when the wages are insufficient to meet the basic living expenses (Marx 1867).

A study by Sungkar et al. (2015) shows that labor value discrepancy in Indonesia increases the income inequality index, meaning incomes become more unequally distributed. Government intervention is needed to establish new standards so workers can fulfill their basic needs and live decent lives. As such, the term minimum wage emerged to determine the lowest wage paid to workers. Setting a minimum value aims to protect workers from being paid substantially too low wages (Afonso 2019; Oguchi 2020; Opone and Kelikwuma 2021). Compared to the levels of inequality across provinces in Indonesia, Yogyakarta experiences the most severe inequality (BPS - Central Statistics Indonesia 2023). The province also sets the second lowest minimum wage in Indonesia, which is negatively correlated with inequality (Sotomayor 2021; Susanto and Pratama 2021). In the context of Yogyakarta, Khoirudin and Musta'in (2020) revealed several factors affecting inequality in Yogyakarta: economic growth, unemployment rate, fiscal decentralization, and district/city minimum wages. The study concludes that the minimum wage affects the severity of the income gap. Similarly, Prasetyo and Permatasari (2020) stated that the minimum wage in Yogyakarta

Province did not meet workers' needs to afford decent life in 2019. The study's survey in traditional markets found that the minimum wage determined by the governor is insufficient to afford a decent life. However, the three studies above do not provide evidence of the discrepancy in the value of labor in Yogyakarta, which could be used to exploit workers and exacerbate economic inequality in Yogyakarta.

Therefore, this research fills the gap by analyzing the discrepancy in labor value. Such discrepancy can be seen in the gap between the cost of living and the minimum wage, capturing workers' exploitation. In addition, this study examines how the discrepancy in labor value affects inequality in Yogyakarta, the province with the highest inequality and the second lowest minimum wage in Indonesia (Chrisamba and Saraswati 2016). This study uses data from secondary sources, i.e., the results of the survey of basic needs for a decent life conducted by the *Front Perjuangan Pemuda Indonesia* (FPPI) (Indonesian Youth Struggle Front) and *Majelis Pekerja Buruh Indonesia* (MPBI) (the Indonesian Blue-Collar Workers' Council). The district/city minimum wage data is based on the government regulation under Decree No. 338/KEP/2022 of the Governor of the Special Region of Yogyakarta about the 2023 Provincial Minimum Wages. Additional data were collected from books, news, journals, and other relevant documents.

### **The Discrepancy in the Value of Labor in Yogyakarta**

In the first *Das Kapital*, in the seventeenth chapter, Karl Marx argued that the value of the labor force is determined by the value of an average worker's basic needs. Suseno (1999) states that the value of labor is the sum of

commodity values a worker needs to live a decent life to restore, renew, and replace energy when needed. In other words, the value of the labor force is the sum of the values of food, clothing, shelter, and all other basic needs that a worker and his family need. Human labor in production determines the total value of commodities, so the amount of money represents the total value of commodities (Farida and Khasanah 2021; Wang, Li, and Gu 2021).

In this case, the value of labor in Indonesia, Yogyakarta in particular, can be measured using *Kebutuhan Hidup Layak* (KHL) (decent-life necessities) (Pratomo and Saputra 2011). Based on Article 1 No. 1 of the Minister of Manpower Regulation (Permenaker RI) No. 21 of 2016 concerning KHL, decent-life necessities consist of the basic needs to live physically properly in a year (Santoso Anas 2020; Setyono 2018), including food and drink, clothing, housing, education, health, transportation, recreation, savings, and social security. The value of decent-life necessities is often determined through an annual survey that reveals the community's standard cost to live a decent life (Lehtinen et al. 2011; Setyono 2018). The value of such a standard cost is also regulated in Regulations Regarding Manpower and Transmigration, evaluated every five years (Mahesa and Sabar 2019; Syahputra and Nugroho 2019).

In Indonesia, many people cannot fulfill the needs of a decent life, marked by the high rates of poverty and inequality, and the highest rate is in Yogyakarta (Ferezagia 2018; Hill 2021; Ramadhanti and Laila 2020; Rasbin 2018). This is exacerbated by the fact that decent-life necessities continue to increase yearly (Tyas 2020; Wiedmann et al. 2020). Based on a survey conducted by FPPI and MPBI, the costs for decent living in Yogyakarta regencies in 2022 can be seen in Table 1.

Table 1 shows the living costs the district/city communities must pay to live a decent life. These values were valid for one year and renewed at the end of 2022, which would be declared valid until 2023 (Setyono 2018). In calculating the decent-life necessities, FPPI and MPBI use two policies i.e Minister of Manpower and Transmigration Regulation (Permenaker RI) No 12 of 2012 and Permenaker RI 18 of 2020). These rules aim to evaluate the results of changes or the latest policy stipulations (Permenaker RI No. 18 of 2020). The survey results and calculation of decent-life necessities in 2023 in Yogyakarta can be seen at Figure 1.

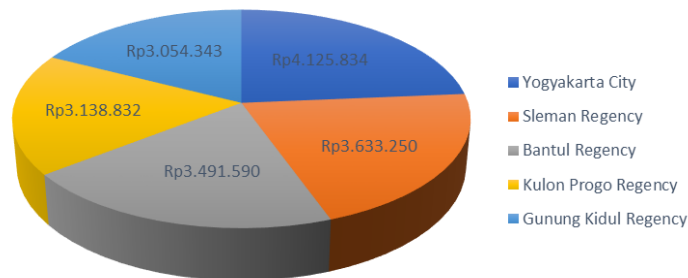
The calculation of survey results on the costs of decent living components (based on Minister of Manpower and Transmigration Regulation No. 18 of 2020) over the years has shown a decrease. This has raised criticism from FPPI and MPBI. The civil society organizations and the trade union association argued that the decrease in the quality of decent living components resulted in a decrease in the value of decent-life necessities. In an audience forum for trade unions and Yogyakarta’s House of Representatives, Miko (KSPSI & MPBI) said, “Yogyakarta in Permenaker No. 13 of 2012 is much better than Permenaker No. 18 of 2020” (E-parlemen DIY 2022).

Table 1  
Yogyakarta Decent-Life Necessities Cost in 2022

Regency/City	Component Costs for a Decent Life
Yogyakarta	Rp 3,067,048
Sleman	Rp 3,031,576
Bantul	Rp 3,030,625
Kulon Progo	Rp 2,908,031
Gunung Kidul	Rp 2,758,281

Source: FPPI & MPBI

Figure 1  
Decent-Life Necessities in Yogyakarta in 2023



Source: Permenaker RI No. 18/2020

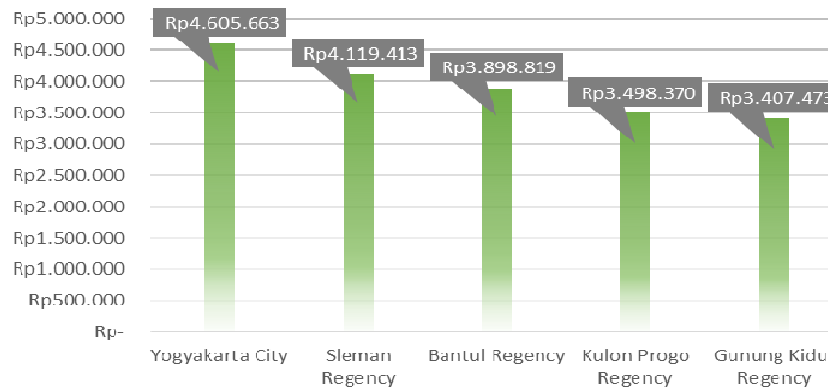
Table 2 describes a decrease in the quality of decent living, which has become a criticism of FPPI and MPBI. Referring to the Regulation of Minister of Manpower of the Republic of Indonesia (Permenaker RI) No. 12 of 2012, dated 9 October 2012, the value of decent-life necessities will also decrease. According to the MPBI and FPPI, the components set out in the

latest ministerial regulation should be updated without removing important components for livability (MPBI & FPPI 2022). Meanwhile, Figure 2 shows the cost for decent-life necessities in 2023 if the quality of the item is not reduced or the KHL cost is determined by using Permenaker RI No. 12 of 2012.

Table 2  
Reduction in the Quality of Decent Living Components

No.	Component	Commodity
1	Food & Beverage	a) The need for sugar fell from 3 kg/month to 1.2 kg/month b) The need for cooking oil decreased from 2 kg/month to 1.2 kg/month c) The need for fruits decreased from 7.3 kg/month to 4.5 kg/month
2	Clothing	a) The need for trousers dropped from 6 pieces/12 months to 4.5/12 months b) The need for belts went down from 1 piece/12 months to 1 piece/24 months c) The need for shirts dropped from 6 pieces/12 months to 4.5 pieces/12 months d) The need for t-shirts dropped from 6 pieces/12 months to 4.5 pieces/12 months
3	Health	Sanitary napkin items are not included in the components
4	Housing	The room rent has decreased in quality from 'meeting all KHL components' to only 16 square meters (4 x 4 m).

Figure 2  
Decent-Life Necessities Yogyakarta 2023



Source: Permenaker RI No. 12/2012

As part of the production factor, labor has a key role in supporting the continuity of the production process. Workers are entitled to wages that support their lives and their families (Azis, Handriani, and Basri 2019; Lukman 2016). The employment of laborers based on a work contract obliges the employer to provide compensation, commonly called wages (Filiyasi and Setiawan 2021; Hijriah and Adiba 2019). From the perspective of capital owners, wages appear as a certain amount of money paid to a laborer for a certain amount of work. Thus, labor's value is expressed as money and natural prices (Marx 1867). According to Article 1 of Law No. 13 (2003) concerning employment, workers/laborers have rights of money as compensation for their work from employers or employers to workers/laborers. This is determined and paid according to a work agreement or laws and regulations, including allowances for workers/laborers and their families for work and/or service that has been or will be performed. The wage amount and payment method agreed upon by the worker and the employer are usually stated in writing in the work agreement.

Wages paid to workers for their contribution to production must have a minimum standard, commonly called the minimum wage (Cengiz et al. 2019; Chandra, Yulmardi, and Erfit 2020). This is necessary so that workers do not receive an arbitrary amount. A minimum wage policy sets the lowest wage companies must pay workers, which has been widely used in various countries, including Indonesia (Hijriah and Adiba 2019; Rahmi and Riyanto 2022). The minimum wage is valid for a year, entitled to all single workers with any employment status who have worked for less than a year. The governor determines the amount based on the recommendation of the Provincial Wage Council

(*Dewan Pengupahan Provinsi*) and/or the regent/mayor (Sari 2013; Siagian and Hayati 2020). Based on Government Regulation (*Peraturan Pemerintah*) No. 36 of 2021, the minimum wage is divided into the provincial and the district or municipal minimum wage. The former applies to all regencies/cities in a province, determined by the governor by taking into account the recommendations from *Dewan Pengupahan Provinsi* with its tripartite elements (employers, the government, trade unions/workers unions, and universities and experts) (Sari 2013). The latter is the minimum wage applicable in the district/municipal area, determined by the governor based on the recommendation of the regent/mayor and the Regency/City Wage Council (*Dewan Pengupahan Kota/Kabupaten*) with its tripartite elements (employers, the government, labor unions/workers' unions, universities, and experts). District/municipal minimum wages are determined no later than forty days before 1 January or after the provincial minimum wage is determined. The district/municipal minimum wage must be greater than the provincial one (Sari 2013).

Mankiw, quoted by Hijriah and Adiba (2019) mentioned that a minimum wage policy defines the minimum standardized wage system employers pay to workers with the amount determined by the regional head. Therefore, the minimum wage standard of the amount varies across regions depending on the economic conditions and the capabilities of the local companies (Akhyar, Suroto, and Elmy 2021). Most importantly, the wages given to workers must be by the minimum standard because workers have the right to it (Rofik and Lestari 2018). The determination of minimum wages is also an effort to elevate the society's low income

and achieve the minimum standard of living (Salsabilla, Juliannisa, and Triwahyuningtyas 2022).

The adequacy of wages and workers' welfare remains an important theme in workers' struggles. Employers and workers keep debating about the value to be agreed upon (Kahpi 2018). The difference between the wages paid and the wages requested by workers triggers dissatisfaction with the government and employers. The wages paid are often far below the adequacy value (according to KHL) (Ghofur 2020; Rusniati, Sudarti, and Agustin 2018). Workers in low minimum-wage areas experience a discrepancy between wages and decent-life necessities, especially in areas with the lowest minimum wage. In Indonesia, one of the provinces with the lowest minimum wage is Yogyakarta (Ramadhanti and Laila 2020).

The following is the minimum wage for each district/city in Yogyakarta Province in 2022 and 2023 (Table 3).

The discrepancy in the value of labor is calculated from the difference between the wages and the costs of decent living. The decent-life necessities are based on the Minister of Manpower Regulation (Permenaker RI) No 12 of 2012 and not Permenaker RI No. 18 of 2020 due to a decrease in quality, hence the cost of decent-life necessities (Kartikasari and Fauzi 2021). Table 4 shows the discrepancy in the value of labor in 2022.

The discrepancy is shown in the difference between the cost for decent living and the district/city minimum wages in Yogyakarta. The table shows that workers in Yogyakarta Province in 2022 suffered from work exploitation.

Table 3  
Regency/City Minimum Wages in Yogyakarta in 2022 and 2023

Regency/City	2022	2023
Yogyakarta	IDR 2,153,970	IDR 2,324,775
Sleman	IDR 2,001,000	IDR 2,159,519
Bantul	IDR 1,916,848	IDR 2,066,438
Kulon Progo	IDR 1,904,275	IDR 2,050,447
Gunung Kidul	IDR 1,900,000	IDR 2,049,266

Source: BPS's Data 2022 and 2023

Table 4  
Discrepancy in the Value of Labor in Yogyakarta in 2022

Regency/City	Components of Decent Living	Minimum Wage	Discrepancy
Yogyakarta	IDR 4,125,834	IDR 2,153,970	IDR 913,078
Sleman	IDR 3,633,250	IDR 2,001,000	IDR 1,030,576
Bantul	IDR 3,491,590	IDR 1,916,848	IDR 1,113,777
Kulon Progo	IDR 3,138,832	IDR 1,904,275	IDR 1,003,756
Gunung Kidul	IDR 3,054,343	IDR 1,900,000	IDR 858,281

Source: FPPI & BPS 2022

Table 5  
The Discrepancy in the Value of Labor in Yogyakarta in 2023

Regency/City	Components of Decent Living	Minimum wage	Discrepancy
Yogyakarta	IDR 4,125,834	IDR 2,324,775	IDR 1,801,059
Sleman	IDR 3,633,250	IDR 2,159,519	IDR 1,473,731
Bantul	IDR 3,491,590	IDR 2,066,438	IDR 1,425,152
Kulon Progo	IDR 3,138,832	IDR 2,050,447	IDR 1,088,385
Gunung Kidul	IDR 3,054,343	IDR 2,049,266	IDR 1,005,077

Source: FPPI & BPS 2023

The discrepancy in the value of labor in Yogyakarta is estimated to continue to 2023. This can be seen through a comparison between the survey results of decent living component and district/city minimum wages conducted by *Front Perjuangan Pemuda Indonesia* and *Majelis Pekerja Buruh Indonesia*. Table 5 shows the inequality in the value of labor.

The discrepancy in the value of labor is caused by a minimum wage that is below the value of decent-life necessities. The government set a wage policy that is not pro-workers. Ade Irsad, the secretary of the Dewan Pimpinan Daerah Konfederasi Serikat Pekerja Seluruh Indonesia (DPD KSPSI) and a member of the *Majelis Pekerja Buruh Indonesia* (MPBI) said:

“The point is that the Government Regulations impacting the fate of these workers are getting worse. We have demanded to discard the Job Creation Law and its derivatives, discard Government Regulations (PP) No. 36 of 2021 as the basis for determining 2022 the provincial (UMP) and the district/city minimum wages (UMK), revoke Decree of the Governor of DI. Yogyakarta concerning the 2022 UMP and UMK, and stipulate the 2022 DIY UMK based on a survey on the decent-life necessities” (E-parlemen DIY 2022).

### The Impact of the Discrepancy in Labor Value on Inequality in Yogyakarta

Inequality in the Special Region of Yogyakarta is ranked first in Indonesia (Nadhifah and Wibowo 2021), as shown in the Gini index of 0.439 (BPS - Central Statistics Indonesia 2023). The Gini index measures aggregate inequality with values ranging between zero and one. A Gini index value of zero means no inequality (perfect equality), while a value of one means perfect inequality (Istiqamah, Syaparuddin, and Rahmadi 2018).

Two inequality indicators of economic inequality are the percentage of income and income mobility (Pathak and Muralidharan 2018). In the context of Yogyakarta, economic inequality is caused not only by the low minimum wage of the district/city of Yogyakarta but also by the accumulation of income received by the bourgeoisie. In other words, income inequality in Yogyakarta is caused by the discrepancy in labor value and unequal income distribution in the community—a condition where the income received by a community is distributed unequally (Fachruurrozi and Hasmarini 2023; Patel et al. 2018). This problem is the cause of massive economic inequality among the people



of Yogyakarta, which refers to the inequality of income and the accumulation of wealth of certain parties (Himes 2019).

The accumulation of income received by capital owners indicates labor exploitation. According to Lobao (2019), the proportion of workers as wage-receiving production workers influence regional inequality. In Yogyakarta, inequality is increasingly significant because most people's employment status is laborers, as shown in Figure 3.

Figure 3 shows that in the latest data (as of August 2022), the main job of people in Yogyakarta is labor (43%) (BPS - Central Statistics Indonesia 2021). The proportion is much higher than in other occupations. It means that most people receive low wages that cannot fulfill the necessities of a decent life—a discrepancy in the value of labor that causes economic inequality. Labor produces value, but the capital owners receive more income (Huws 2019; Michael 2016; Stantcheva 2022), implying that Yogyakarta workers experience job exploitation (Haekal 2020).

Figure 3  
The Employment Distribution in Yogyakarta



Source: BPS – Central Statistics Indonesia 2022

## Conclusion

This study reveals a discrepancy in the value of labor in Yogyakarta, as shown in the difference between the minimum wage, i.e., the lowest price for work, and the cost of necessities for a decent life. The district/city minimum wage in Yogyakarta is IDR 858,281- IDR 1,801,059, lower than the cost of living. In addition, changes to the

Permenaker as the basis for determining the cost of living also reduce the value of labor to be received by workers (the ideal value). The discrepancy in the value of labor has led to economic inequality in Yogyakarta as it results in the accumulation of income on capital owners and workers' exploitation. Most people in Yogyakarta work as laborers (43%), exacerbating income inequality.

This research has addressed the gap in previous studies and provides evidence of a discrepancy in the value of labor in Yogyakarta. In addition, this study also compares the two basic policies regarding the necessities for a decent life, namely Permenaker No. 12 of 2012 and Permenaker No. 18 of 2020, which worsens economic inequality. However, this study still has a limitation. The data are secondary data obtained from the *Majelis Pekerja Buruh Indonesia* and *Front Perjuangan Pemuda Indonesia* survey, as well as information about district/city minimum wages and other relevant documents. Further studies should be developed using primary data from field studies.

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