

## Encouraging Work Productivity Through Minimum Wage Increase: Surabaya City Case Study

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### Abstract

This study aims to analyze the minimum wage increase and its implication on labor productivity in Surabaya City, as well as identify the factors that influence the relationship. This research uses a descriptive qualitative approach and secondary data from official sources such as the Central Bureau of Statistics (BPS). The data analyzed includes UMK trends and labor force data from 2020 to 2024. The results show that Surabaya's MSE has increased significantly in recent years, influenced by factors such as inflation and the cost of living. This increase in UMK has complex implications for labor productivity. On the one hand, it can improve workers' motivation and welfare, but on the other hand, it can be a challenge for UMKM by increasing operational costs. This research emphasizes the need for balanced policies to support economic growth and business continuity, as well as training programs to improve workforce skills.

**Keywords:** *Labor Productivity, Wage Increase, Labor Economics*

### INTRODUCTION

Wages and labor productivity are important topics in labor economics studies. When wages are high, workers are more motivated to work, and companies are more inclined to hire. Adam Smith's "invisible hand" theorem is often referenced to explain how opposing interests between workers and employers are balanced within the labor market. According to classical labor economic theory, a worker's marginal productivity equals their wage. In highly competitive labor markets, employees receive wages that reflect their productivity levels, thus aligning labor demand with labor supply. However, due to information asymmetry and institutional factors, perfectly competitive labor markets rarely exist in reality. This implies that wages do not always reflect actual labor productivity—in some cases, the opposite may occur (Agus Salim et al., 2023).

To improve worker welfare, especially in the formal sector, governments frequently implement economic policies such as minimum wage increases. In

Indonesia, these policies are regulated through government regulations and are often adjusted according to inflation and economic conditions. As one of Indonesia's major economic centers, Surabaya provides a compelling case to investigate the impact of minimum wage increases on labor productivity. This issue has become increasingly relevant in the post-COVID-19 economic landscape, where many sectors have undergone significant shifts in both productivity and workforce structure.

Recent data indicates that productivity in the formal sector has not increased proportionally to the rise in minimum wage. For instance, in 2023, while the minimum wage increased by 10%, labor productivity grew by only 3% (BPS, 2023). This raises questions about the effectiveness of minimum wage policies in enhancing labor productivity. According to Senior Stuart Mill's wage fund theory, the level of wages depends on the size of the available fund in society. When this fund is large, wages rise accordingly; conversely, when the fund diminishes, wages tend to decrease as well (Sa'adah et al, 2016).

The East Java Provincial Government officially set the 2025 Provincial Minimum Wage (UMP) at IDR 2,305,985, a 6.5% increase from the previous year. This increase affects all district and city minimum wages in East Java, including Surabaya. In 2025, Surabaya's Minimum Wage (UMK) reaches IDR 4,961,753—the highest in the province—rising by IDR 236,274 from the 2024 rate of IDR 4,725,479. This adjustment is expected to improve the welfare of workers in the city. On the other hand, it poses a challenge for employers, particularly small and medium enterprises (SMEs), which must adapt their operational costs accordingly (Muallifa, 2024).

The need to understand the relationship between minimum wage increases and labor productivity is the core urgency of this research, especially within an ever-changing economic environment. Many businesses in Surabaya struggle to comply with minimum wage regulations while maintaining productivity, particularly in the aftermath of the COVID-19 pandemic. This study is expected to provide deeper insights into the factors affecting labor productivity in the formal sector and offer better policy implications.

Previous studies have examined the relationship between minimum wages and productivity, but most have focused on regional or global contexts. For example, research by Neumark and Wascher (2020) found that minimum wage increases could negatively affect employment, though they did not directly measure productivity. Conversely, Kahn (2019) found that higher wages can enhance employee motivation and loyalty, which may in turn increase productivity. Meanwhile, studies by Arsyad and Sari (2021) suggest that minimum wage hikes can improve productivity in certain sectors, but lack detailed analysis of how local factors—such as industry type, job categories, and worker characteristics—shape this relationship. Importantly, none of these studies have focused specifically on the context of Surabaya, indicating a research gap.

This study addresses that gap by examining the impact of minimum wage increases on labor productivity in Surabaya's formal sector. Although many studies explore the relationship between minimum wages and productivity, few consider the local context and characteristics of the formal sector. This research aims to fill

that void by analyzing how minimum wage increases influence labor productivity in Surabaya, while also identifying the factors that shape this relationship

## **METHOD**

This study employs a descriptive qualitative approach aimed at illustrating the trend of increasing Minimum Wage (UMK) in Surabaya and analyzing its potential impact on labor productivity in the formal sector. The data used are secondary, obtained through literature review and collection of official documents from government sources such as the Central Bureau of Statistics (BPS) and relevant institutions. The data include historical information on Surabaya's UMK and labor force statistics for the period from 2020 to 2024. The primary focus of the study is the UMK variable, while labor force data are used as additional context. The analysis of the impact is directed toward formal labor productivity, taking into account the limitations of aggregate data in directly measuring productivity. The analysis is conducted descriptively, by observing annual UMK trends, outlining labor force developments during the same period, and evaluating the potential implications of UMK increases on productivity based on relevant theoretical and empirical conditions, while also considering factors that may influence this relationship.

## **RESULTS AND DISCUSSION**

### **The Trend of Minimum Wage Increases in the City of Surabaya**

In response to changes in inflation, the cost of living, and regional economic conditions, the Minimum Wage in Surabaya (UMK) has shown a significant upward trend in recent years. According to data from the Central Bureau of Statistics (BPS, 2023), Surabaya's UMK increased by an average of 7–8% annually from 2019 to 2023, reaching its highest value of IDR 2,000,000 in 2023. Amid government efforts to boost purchasing power and reduce poverty, this policy aims to improve the welfare of workers (BPS, 2023).

Several key factors have contributed to the UMK increase, including rising prices of basic necessities, housing costs, transportation expenses, and demands from labor unions. As a regional business and commercial hub, the cost of living in Surabaya is higher than in other cities in East Java. Therefore, increasing the UMK has become essential to maintain the purchasing power of the working population. On the other hand, the prices of goods and services have also risen due to high inflation and the depreciation of the rupiah against the US dollar, both of which are important considerations in determining the UMK (Detik Finance, 2023).

In addition, the Surabaya Regional Wage Council, which involves the government, employers, and labor unions, plays a role in determining the UMK. Given the differing interests of each party, the deliberation process is often prolonged. While employers advocate for moderate increases to control operational costs, labor unions demand significant raises to meet decent living standards. Referring to the Ministry of Manpower regulations and the wage formula based on inflation and economic growth, the government acts as a mediator to balance these interests.

However, not all industrial sectors in Surabaya are equally able to adapt to the UMK increases. Large manufacturing industries are generally better prepared due to their economies of scale and more stable capital, while Micro, Small, and Medium Enterprises (MSMEs) often face pressure due to rising labor costs. This has raised concerns about layoffs or reduced working hours, especially in labor-intensive sectors that are highly sensitive to wage changes. Therefore, local governments must also focus on enhancing the productivity and competitiveness of the informal sector workforce by setting appropriate wage policies.

As the cost of living and worker needs in major cities continue to grow in complexity, the upward trend in Surabaya's UMK is expected to persist in the long term. However, this increase must be balanced with policies that support economic growth and business sustainability, so that the positive impact of wage improvements can be felt broadly without creating new economic pressures for both workers and employers.

The following table presents data on the annual increases in Surabaya's Minimum Wage (UMK) from 2020 to 2024.

**Table 1. Minimum Wage in Surabaya City, 2020–2024**

<b>Minimum Wage in Surabaya City(Rupiah)</b>		
<b>No</b>	<b>Year</b>	<b>Amount</b>
1.	2020	4.200.479,19
2.	2021	4.300.479,19
3.	2022	4.375.479,19
4.	2023	4.525.479,19
5.	2024	4.725.478,00

*Source: Processed BPS Data, 2025.*

The rise in the Minimum Wage (UMK) in Surabaya is the result of local economic shifts and government regulations aimed at improving employee welfare. Over the past five years, Surabaya's UMK has consistently increased, with an average annual growth rate ranging between 3% and 5%. In 2020, the UMK was set at IDR 4,200,479. Despite the impact of the COVID-19 pandemic, it was slightly raised to IDR 4,300,479 in 2021. The government implemented this increase as a social safety net to address the decline in workers' incomes during the pandemic (Muallifa, 2024).

In 2022, the UMK rose again to IDR 4,375,479 and continued to increase, reaching IDR 4,525,479 in 2023. In 2024, it recorded a significant rise to IDR 4,725,479, reflecting the local government's ability to adjust to the dynamics of living costs and inflationary pressures. Most recently, in 2025, Surabaya's UMK became the highest in East Java Province at IDR 4,961,753. This increase shows

that the city government not only follows the national wage formula but also takes into account the rapidly evolving socio economic conditions of the urban area (Muallifa, 2024).

The 2024 East Java Provincial Minimum Wage was set with a 6.13% increase, or IDR 125,000, bringing it to IDR 2,165,244.30. Meanwhile, Surabaya's UMK for 2024 was still pending approval at the time and had not been officially announced. Year after year, Surabaya's UMK has consistently been the highest compared to other regencies/cities in East Java. However, the increase in 2022 was slightly lower at IDR 75,000 compared to the IDR 100,000 increase in 2021. In 2020, Surabaya's UMK was IDR 4,200,479.19, an increase of IDR 329,426.39 from the 2019 rate of IDR 3,871,052.61. Then in 2021, the UMK rose by IDR 100,000 from the 2020 figure, reaching IDR 4,300,479.19.

According to the Governor of East Java's Decree No. 188/889/KPTS/013/2022 on the Minimum Wage for Regencies/Cities in East Java for 2023—available on the East Java Provincial Government's Legal Documentation and Information Network (JDIH)—Surabaya's UMK was set at IDR 4,525,479.19. This was the highest among the 38 regencies and cities in East Java. The regulation is based on Minister of Manpower Regulation (Permenaker) No. 18 of 2022. The 2023 UMK applies to employees who have worked for less than one year at their respective companies.

The process of increasing Surabaya's UMK involves various stages and considerations, including proposals and aspirations from labor unions and employers, contributions of labor to the industry, employer capabilities, and raw material costs.

The following table presents data on the labor force in Surabaya City from 2020 to 2024.

**Table 2. Labor Force in Surabaya City, 2020–2024**

<b>Labor Force in Surabaya City (People)</b>		
<b>No</b>	<b>Year</b>	<b>Amount</b>
1.	2020	1.582.564
2.	2021	1.572.888
3.	2022	1.643.314
4.	2023	1.569.714
5.	2024	1.624.822

*Source: Processed BPS Data, 2025.*

The August 2021 Sakernas results showed a 0.61% decrease in the number of employed people in Surabaya City compared to August 2020. This decline aligned with a 0.75% decrease in the Labor Force Participation Rate (LFPR). It is

suspected that people were reluctant to enter the labor market due to the economy not fully recovering after the COVID-19 pandemic.

In August 2024, there were 1,545,055 employed individuals and 79,767 people living in poverty. This figure increased by 55,108 people compared to August 2023, with 81,461 people entering employment and 26,353 becoming unemployed. The Labor Force Participation Rate in Surabaya City rose from 68.73% in August 2023 to 70.49% in August 2024. LFPR indicates the percentage of the working-age population that is economically active in a given area, either as employed or unemployed individuals.

In terms of gender, national trends show that the LFPR for men is consistently higher than that for women. This pattern is also evident in Surabaya City, where the male LFPR exceeds the female LFPR. One frequently cited factor behind this gap is the traditional role of men as the primary breadwinners in households, while women are more often responsible for domestic duties. In August 2021, the male LFPR in Surabaya was 81.69%, while the female LFPR was only 53.44%. This means that out of every 100 men aged 15 and above, 81 were active in the labor market, either employed or seeking work, whereas only 53 out of every 100 women were economically active.

In August 2024, both male and female LFPR increased. The male LFPR rose from 80.25% to 81.92%, while the female LFPR rose from 57.61% to 59.48%. However, there remains a significant gap between male and female participation in the labor force, which is commonly attributed to differing household roles, where men are expected to earn income and women are expected to handle domestic responsibilities.

### **Implications of Minimum Wage Increases on Labor Productivity**

The increase in the minimum wage in Surabaya is part of a government policy aimed at improving workers' welfare and reducing economic inequality. As a metropolitan city and the economic hub of East Java, Surabaya has a dynamic and complex labor market. From 2020 to 2024, labor productivity in the city saw a significant improvement, despite major challenges brought on by the COVID-19 pandemic. In 2020, economic pressures led to widespread job losses and a slowdown in business activity. However, the city government quickly responded with various recovery programs, such as job training, labor-intensive projects, and support for micro, small, and medium enterprises (MSMEs).

In the following years, particularly from 2021 to 2023, Surabaya began showing signs of recovery. Job opportunities gradually reopened, especially in the service and industrial sectors, which are the backbone of the city's economy. The labor force continued to grow, and many were successfully absorbed into employment, although some still had to adapt to shifting labor market trends and demands. By 2024, labor conditions in Surabaya had improved further. The workforce was dominated by people of productive age who were actively seeking employment or starting their own businesses. The quality of the labor force also improved, as more residents participated in skills training and certification programs. The city government promoted collaboration between businesses and



vocational education institutions to ensure graduates acquired skills aligned with industry needs.

The increase in the minimum wage in Surabaya from 2020 to 2024 has had broad and complex implications for labor productivity, affecting economic, social, and structural aspects of employment. In the formal sector, the higher minimum wage had a positive impact on work motivation and employee welfare. Workers who received better compensation tended to demonstrate higher loyalty to their companies, greater job responsibility, and improved efficiency. This effect was especially evident in the manufacturing and professional services sectors, where productivity is closely tied to employee skills and motivation. Additionally, with rising minimum wages, workers' purchasing power increased, which in turn supported domestic consumption and stimulated local economic growth.

On the other hand, challenges also arose, particularly for MSMEs and labor-intensive sectors with limited profit margins. For small business owners, higher labor costs due to increased wages could reduce their capacity to maintain or expand their workforce. Some MSMEs experienced decreased productivity because they had to cut working hours, limit recruitment, or assign heavier workloads to employees without providing additional training. In such cases, wage increases do not always correlate with higher productivity and can become a structural burden if not accompanied by improvements in efficiency and workforce skills.

The Surabaya city government has responded to these challenges with various supporting policies. Competency-based job training, labor-intensive programs, and collaboration with the private sector for vocational training have become strategic steps to ensure that wage increases go hand in hand with improvements in labor quality. These programs aim to equip workers, particularly those in the productive age group, with relevant and in-demand skills. In addition, efforts to promote MSME digitalization and expand access to business financing have been pursued to help the informal sector adapt to rising operational costs.

At the macro level, the implications of minimum wage increases on productivity also involve changes in labor market structure. Companies tend to become more selective in recruitment and focus more on operational efficiency. In sectors like manufacturing and logistics, automation and digitalization have become options to reduce reliance on high-wage labor. This trend may have long-term impacts on the number and types of available jobs, meaning that increased productivity does not always translate into more employment opportunities.

## **CONCLUSION**

The increase in the minimum wage in Surabaya City from 2020 to 2024 has shown a significant impact on labor productivity. Although the minimum wage has risen, the increase in productivity does not always correspond proportionally to the wage increase. This study finds that sectoral characteristics, inflation, and economic conditions greatly influence the relationship between wages and productivity. Government policies that support job training programs and collaboration with industries are needed to ensure that wage increases are accompanied by improvements in workers' skills, even though wage increases can enhance employee motivation and well-being. Overall, while raising the minimum wage has

positive potential, a balanced approach is required to drive economic growth without burdening businesses.

It can be concluded that the increase in the minimum wage has a positive and significant effect on labor productivity. Higher wages encourage improved motivation and performance among workers, leading to increased work output. However, the impact on businesses varies. Labor-intensive sectors tend to face pressure due to rising production costs, while capital-intensive or high-skill-based sectors are generally more capable of adapting. Therefore, it is important to ensure that minimum wage increases are accompanied by improvements in labor productivity to avoid placing a burden on businesses. In this regard, both the government and companies are expected to play an active role in providing training and skill development to enhance work efficiency. This study recommends that minimum wage policy increases be accompanied by human resource development strategies through education and vocational training to support long-term productivity.

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