

FISCAL DECENTRALISATION IN THE FIELD OF INDUSTRIAL RELATIONS WITHIN THE FRAMEWORK OF HARMONISATION OF NATIONAL FISCAL POLICY

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submitted July 2024 – reviewed November 2026 – published May 2026

Abstract

The primary objective of regional autonomy is to achieve equitable management of natural and human resources, ultimately enhancing the well-being of individuals. Regional autonomy and decentralization are inseparable. The labour sector is separated into various areas of responsibility, including industrial relations issues. This particular area is further subdivided into matters concerning the central government, province governments, and district or municipal regional governments. Implementing regional autonomy to govern regional finances based on their own capacity is a crucial aspect of fiscal decentralization. Fiscal decentralization is dependent on the synchronisation of fiscal policies at both the national and regional levels. In order to sustain economic progress and prosperity, it is imperative to establish a harmonious collaboration between the central authority and the various areas. This study will examine two specific issues: First, if the arrangements for the division of affairs in the field of industrial relations have implemented fiscal decentralization. Second, the alignment of fiscal decentralization with national fiscal policy is crucial in implementing regional autonomy in the field of industrial relations. This legal document employs normative legal research with a legislative approach, focusing on state finances, employment, fiscal policy, regional government, and various government policy documents, including KEM PPKF. This study's findings indicate that integrating government issues into the labour sector, namely industrial relations, within the context of fiscal decentralization and decentralization, is consistent with national budgetary strategy. This alignment is evident through numerous regulations pertaining to central and regional financial relations, employment regulations, regional financial management regulations, and guidelines for preparing the APBD.

Keywords: *Fiscal Decentralization; Harmonization of National Fiscal Policies; Industrial Relations.*

A. Research Background

The primary objective of regional autonomy is to equalise the management of natural and human resources and improve people's welfare. Under the application of regional autonomy, regions possess the jurisdiction to govern and oversee their respective territories based on their capabilities. This includes the regulation of existing development plans to achieve equal well-being for all individuals. Since the advent of the reform era, regional autonomy has emerged as a pivotal moment, granting regions the authority to govern and administer their own affairs independently. Regional autonomy allows most regions to have the option to enhance their development for the better. However, many regions are not ready for the regional autonomy system and local government, so not a few regions are left behind and deviate from the principles of planning in development.

Regional autonomy cannot be separated from decentralisation. Article 1 No. 6 and No. 8 of Law No. 23 of 2014 concern Local Government as last amended by Law No. 6 of 2023 concerning the Stipulation of Government Regulations in Lieu of Law No. 2 of 2022 concerning Job Creation into Law states “Regional Autonomy is the right, authority, and obligation of autonomous regions to regulate and manage their own Government Affairs and the interests of local communities within the system of the Unitary State of the Republic of Indonesia”, while “Decentralisation is the transfer of Government Affairs by the Central Government to autonomous regions based on the Principle of Autonomy”. Regional autonomy is achieved through the process of decentralisation, which involves the transfer of governmental responsibilities from the central government to local governments. In the application of decentralisation, some affairs are transferred from the central to regional governments, and the division of affairs in the field of labour is no exception.

The field of labour is separated into various areas, one of which is industrial relations. This category includes central government affairs, province regional government affairs, and district/city regional government issues. Industrial relations development must be carried out to ensure that industrial relations in accordance with the values of Pancasila remain dynamic, harmonious, and equitable. Industrial relations must involve various elements, such as workers, employers, and the government. This is based on Article 1 point 16 of Law No. 13 of 2003 concerning Manpower as amended by Law No. 6 of 2023 concerning Labour Law. The government has functions related to policy, services, supervision and enforcement of violations. In carrying out these functions, industrial relations matters are divided among the regional and central governments, both provincial and district/city. Implementing these affairs using the APBN or APBD budget requires. Therefore, the achievement of regional autonomy necessitates fiscal decentralisation, particularly in the realm of industrial relations.

Regional autonomy implemented to manage regional finances according to their respective potential is an important part of the decentralisation of fiscal. In Indonesia, fiscal decentralisation is crucial to the application of regional autonomy as it allows for the improvement of public welfare according to each region's potential, although there are still many obstacles to this.¹ Fiscal decentralisation plays a role in achieving national fiscal policy objectives. One of the fiscal policy objectives related to fiscal decentralisation is to increase and distribute national income.² Fiscal decentralisation can also benefit the economy dynamically. The latest research on endogenous growth demonstrates that institutional arrangements have an impact on economic growth.³ Changing from a centralised fiscal system to fiscal decentralisation could increase the long-term economic

¹ Adissya Mega Christia and Budi Ispiyarso, "Desentralisasi Fiskal dan Otonomi Daerah di Indonesia", *Law Reform*, Vol. 15, No. 1, 2019, p.149.

² Erly Suandy, 2017, *Hukum Pajak*, Salemba Empat, Jakarta, p.13.

³ Robert J. Barro, "Government Spending in a Simple Model of Endogenous Growth", *Journal of Political Economy*, Vol. 98, No. 5, 1990, p.103–25.

growth rate.⁴ The implementation of fiscal decentralisation has played a crucial role in fostering economic growth.⁵

Strengthening fiscal decentralisation depends on harmonising central and local fiscal policies. This synergy between the centre and regions is necessary to continue supporting economic growth and prosperity. Sri Mulyani, Minister of Finance, said fiscal decentralisation is critical to creating social justice and improving public services. She assessed that the devolution of funding sources through transfers to regions and local taxation, along with the authority to manage expenditure to implement government affairs that fall under regional authority, will continue to be improved and synergised between the centre and regions.⁶

As the allocation of transfers to regions increases, the quality of regional expenditure is a concern. In addition, harmonisation between central and regional spending must be improved. The increase in transfers to regions each year shows that fiscal decentralisation must reflect improvements in community services and local communities prosperity. Although transfers to the regions are the primary source of revenue for most of the APBD, own-source revenues have also continued to increase. This shows that the regional economy is also increasing, so the local revenue source is also getting better. Local own-source revenues should continue to increase without limiting investment opportunities. However, we must consider the level of regional spending at the same time. This is often considered one of the barriers to continuous efforts to improve the effectiveness of the APBN and APBD in promoting increased prosperity and economic performance.⁷

⁴ Wallace E. Oates, "Fiscal Decentralization and Economic Development", *National Tax Journal*, Vol. 46, No. 2, 1993, p. 237–43.

⁵ Justin Yifu Lin and Zhiqiang Liu, "Fiscal Decentralization and Economic Growth in China", *Economic Development and Cultural Change*, Vol. 49, No. 1, 2000, p.17–18.

⁶ Badan Kebijakan Fiskal, "Pemerintah Komit Perkuat Harmonisasi Kebijakan Fiskal Pusat dan Daerah", <https://fiskal.kemenkeu.go.id/baca/2023/06/14/4401-pemerintah-komit-perkuat-harmonisasi-kebijakan-fiskal-pusat-dan-daerah>, accessed 26 May, 2024.

⁷ *Ibid.*

Legally, Law No. 23 of 2014 concerning Regional Government and Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments are the basis for fiscal decentralisation and decentralisation or devolution of government jurisdiction to local governments. These arrangements include the authority of regional governments to obtain funding sources that are earmarked for development in the regions. In addition, the Labour Law is the basis for technical matters related to industrial relations. Harmonisation of central and regional fiscal policies is also directed at the Macroeconomic Framework and Fiscal Policy Principles (Hereinafter referred to as *KEM* and *PPKF*). Article 1 point 25 of Government Regulation No. 1 of 2024 states “*KEM PPKF* is a state document containing a description and design of macroeconomic and fiscal policy directions as material for preliminary discussions with the House of Representatives in drafting the State Budget for the next fiscal year”.

This study will analyse two issues according to the background of the aforementioned problems: a) has the regulation of division of affairs in the field of industrial relations adopted fiscal decentralisation; and b) has fiscal decentralisation in the application of regional autonomy in industrial relations synergised with national fiscal policy.

B. Research Method

This legal writing uses normative legal research, which is also known as legal research.⁸ In this research, the approach used is a statutory approach, which is carried out by examining the provisions of Law No. 23 of 2014 and Law No. 1 of 2022, as well as several laws and regulations relating to state finances, fiscal policy, local government, and several government policy documents such as *KEM PPKF*.

⁸ Depri Liber Sonata, “Metode Penelitian Hukum Normatif dan Empiris: Karakteristik Khas dari Metode Meneliti Hukum”, *Fiat Justitia Jurnal Ilmu Hukum*, Vol. 8, No. 1, 2014, p. 28.

C. Research Result and Analysis

There is a relationship in governance between the regional and central governments in the context of regional autonomy. The devolution of some government affairs to local governments has implications for the necessity of financial delegation. Regional expenditure is a consequence of the division of affairs to local governments that are given the authority and responsibility to provide public services. The delegation of revenue must also follow the delegation of expenditure.⁹ To ensure that autonomy and fiscal decentralisation are successfully implemented in Indonesia, all relevant and interested parties must fully support the government's efforts. Fiscal decentralisation and regional autonomy can help Indonesia advance towards inclusive and sustainable prosperity in the future.

Harmonising central and regional fiscal policies is necessary to increase economic growth, reduce poverty, and reduce unemployment. According to Law No. 1 of 2022, the government must continue harmonising central and regional policies. This is done by looking at opportunities and challenges and strengthening the regional economy through regional economic growth, inflation, open unemployment, and poverty rates. The region assesses and evaluates by looking at the challenges and opportunities to move forward. Policies set nationally to support economic transformation must be implemented consistently in the region. This includes pursuing economic growth, controlling inflation, reducing extreme poverty, addressing stunting, encouraging investment, and maintaining mandatory spending to improve the situation in each region.¹⁰

⁹ Proborini Hastuti, "Desentralisasi Fiskal dan Stabilitas Politik dalam Kerangka Pelaksanaan Otonomi Daerah di Indonesia", *Simposium Nasional Keuangan Negara Tahun 2018*, p. 784-785.

¹⁰ Badan Kebijakan Fiskal, *Loc.Cit.*

1. Arrangements for the Division of Affairs in the Industrial Relations Sector have Adopted Fiscal Decentralisation

The primary goals of fiscal decentralisation are to facilitate regional autonomy over the nation's financial resources, enhance the responsibility and openness of local governments, foster public engagement in regional progress, mitigate regional disparities, and guarantee the provision of essential public services in every region. Ultimately, fiscal decentralisation is expected to improve society's overall welfare.¹¹ The enactment of Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments is the basis for improving and strengthening the governance of regional and central financial relations. According to the Constitution, implementing government affairs from the central to the regional level is part of the government power vested in the President. Thus, each region cannot carry out their implementation individually. This means that funding for these affairs must be synchronised to achieve the country's goals.

To overcome the hurdles to accomplishing national goals, it is necessary to move beyond simply increasing the regulation of financial interactions between the government and local governments. Therefore, Law No. 1 of 2022 explained “Regional fiscal policy must be synchronised with central government fiscal policy to optimise all fiscal policy instruments to achieve national goals. Fiscal instruments do not only lie in transfers to regions, local taxes and local levies but also through national fiscal policy synergies, local debt financing, and funding synergies”. Within the scope of financial connections among the local and central governments, two principles regulate the implementation of government affairs, namely: a) funding comes from and is borne by the *APBD* for government affairs that are under the jurisdiction of the regions; b) funding comes from and is borne by the *APBN* for central government affairs in the

¹¹ Nurhemi and Guruh Suryani R, “Dampak Otonomi Keuangan Daerah terhadap Pertumbuhan Ekonomi di Indonesia”, *Buletin Ekonomi Moneter dan Perbankan*, Vol. 18, No. 2, 2015, p. 185.

regions. Decentralisation refers to the transfer of government affairs to regional authorities, whereas deconcentration refers to the delegation of central government affairs to regional entities.

They are existing legal instruments to control fiscal decentralisation to help regional economic growth and build regional economic activities. They also serve as the foundation for future laws governing fiscal decentralisation. Fiscal decentralisation policies allow local governments to tap into their economic potential to solve various problems. Local governments can enact local regulations on fiscal decentralisation so communities can pay more attention to decisions as they align with local characteristics and potentials. Therefore, the relationship between inequality and autonomy demands is complex and dependent on local circumstances. For fiscal decentralisation at a higher level, local governments can also provide input to the central government through legislation.¹²

The principles and objectives of fiscal decentralisation as one of the instruments of government policy in Indonesia include: a) reducing fiscal disparities between local and central governments, as well as between regions; b) addressing regional disparities in public services and enhancing the quality of services provided in different locations; c) enhancing the efficiency of domestic resources; d) the process of allocating transfers to regions that are on target is monitored, transparent, and accountable; e) in macroeconomic policy, supporting fiscal sustainability.¹³ Similarly, Machfud Siddik mentions the general objectives of fiscal decentralisation in Indonesia as follows: a) to help improve national allocation and operational efficiency of local governments; b) to fulfil regional desires, improve fiscal structure, and move revenues regionally and then nationally; c) to improve transparency, accountability, and constitutional participation

¹² Kartika Shara Ningsih, *et.al.*, “Desentralisasi Fiskal dalam Peyelenggaraan Otonomi Daerah di Indonesia”, *JISIP: Jurnal Ilmu Sosial Dan Pendidikan*, Vol. 7, No. 3, 2023, p. 2609.

¹³ Mardiasmo, 2009, *Otonomi dan Manajemen Keuangan Daerah*, BPFE UGM, Yogyakarta, p. 71.

in decision-making at the regional level; d) to mitigate fiscal inequalities among local administrations, guarantee the provision of essential public services across the nation, and advance the objective of efficient governance and; e) to improve social welfare for all Indonesians.¹⁴

The implementation of local government that comes from decentralisation is also closely related to local revenue and expenditure. The local government must carry out regional financial management to implement regional government affairs. This follows the provisions in Article 280 paragraph (1) of Law No. 23 Year 2014. The administration of local income and expenses is documented in the *APBD*, which is governed by regional legislation. This is stipulated in Article 16 paragraph (1) of Law No. 17 of 2003 concerning State Finance, which states, *APBD* is a form of regional financial management which is determined annually by regional regulation.’ According to Article 1 point 2 of Government Regulation No. 12 of 2019, regional financial management encompasses several operations, such as budgeting, planning, reporting, administration, execution, accountability, and oversight of regional finances. Annual regional financial planning is included in regional income and expenditure, namely the *APBD*.

The regional head is the official executive actor who has the ultimate power to formulate the *APBD*. However, according to Law No. 23 of 2014, the *DPRD*, as the legislative body, is also a local government organiser. The executive formulates regional regulations about the *APBD* during the regional budgeting process and then discusses it with the *DPRD*. However, formal actors in regional apparatus organisations as administrative bodies involved in preparing regional budgets can be identified based on their duties, functions and positions towards the regional organisation or institution.¹⁵

¹⁴ Machfud Sidik, “Studi Empiris Desentralisasi Fiskal : Prinsip, Pelaksanaan di Berbagai Negara serta Evaluasi Pelaksanaan Penyerahan P3D (Personil, Peralatan, Pembiayaan dan Dokumentasi) sebagai Konsekuensi Kebijakan Pemerintah,” in *Sidang Pleno ISEI Ke-X*, Ikatan Sarjana Ekonomi Indonesia, Batam, 2001.

¹⁵ Muh. Hamka, *et. al.*, “Politik Anggaran dan Relasi dan Relasi Aktor dalam Penyusunan Anggaran Pendapatan dan Belanja Daerah”, *Jurnal Politik Profetik*, Vol. 10, No. 1, 2022, p. 88.

In preparing this *APBD*, fiscal decentralisation plays its role as the authority of regional governments in administering regional finances.

Law No. 23 of 2014, in its appendix, has mentioned the division of affairs related to industrial relations. Appendix I Letter G Number 3 delineates the allocation of responsibilities among the central, provincial, and district/city governments. The central government carries out affairs related to: a) the ratification and the registration of company regulations and collective labour agreements for companies that have a working area of more than one provincial area; and b) the prevention and settlement of industrial relations disputes, strikes and closures that have an impact/impact on national/international interests. Furthermore, the provincial government has three main affairs, namely: a) ratification and registration of company regulations and collective labour agreements for those with working areas in more than one district/city in one provincial area; b) prevention and settlement of industrial relations disputes, strikes and company closures that have an impact on interests in one provincial area; and c) determine minimum wages, both provincial, provincial sectoral, district/city and district/city sectoral. Meanwhile, district/municipal governments have the following responsibilities: a) The act of officially approving company regulations and officially recording collective labour agreements for enterprises that operate only within a single district or municipality; and b) The act to prevent and resolve conflicts related to industrial relations, strikes, and the closure of companies inside the district or municipality. Upon closer examination, allocating responsibilities among the central and regional governments on industrial relations reveals two distinct limitations and specific matters, namely: a) the affairs among the central and local governments are restricted based on geographical boundaries, including national/international, province, and district/city levels; and b) the province government has exclusive jurisdiction over certain matters, such as setting minimum wages.

Actually, industrial relations matters are not limited to what is mentioned in the appendix of Law No. 23 of 2014. Basically, industrial relations issues cover many things, such as social, cultural, psychological, economic, political, legal, and defence and security. Therefore, industrial relations include not only employers and workers but also the government and society as a whole.¹⁶ The complex problems in industrial relations demand genuine efforts from all parties, including the government, to prioritise the application of laws and regulations, as well as intensive guidance and communication between company leaders and workers/labourers to improve their welfare.¹⁷ The objectives of industrial relations are to increase production, improve the welfare of workers, and increase peace of mind at work and business.¹⁸

To accomplish the aforementioned goal, the government, including both the central and regional authorities, must actively promote fostering of industrial relations, following the decentralised division of affairs. Regarding the provisions in the Labour Law, there are eight means of industrial relations. These means of industrial relations include: a) employers organisations; b) trade unions/labour unions; c) tripartite cooperation institutions; d) bipartite cooperation institutions; e) collective labour agreements; f) company regulations; g) industrial relations dispute settlement institutions; and h) labour laws and regulations. Both regional and central governments work to maximise the development of the aforementioned industrial relations facilities to achieve dynamic, harmonious, and fair industrial relations.

Industrial relations development in the context of decentralisation is implemented by the local government, which relies on the *APBD* for its administration. Involvement in the *APBD* preparation by the head of regional and *DPRD*, including the regional

¹⁶ Asri Wijayanti, 2009, *Hukum Ketenagakerjaan Pasca Reformasi*, Sinar Grafika, Jakarta, p. 56.

¹⁷ Suwanto, 2010, *Hubungan Industrial dalam Praktek; Dilengkapi Pendekatan Teori*, Cet.2, Asosiasi Hubungan Industrial Indonesia (AHHI), Jakarta, p. 102.

¹⁸ Abdul Khakim, 2014, *Dasar-Dasar Hukum Ketenagakerjaan di Indonesia*, Cet.4, Ed. Revisi, Citra Aditya Bakti, Bandung, p. 79.

apparatus organisations, is very necessary considering that the regional apparatus organisation is a technical agency that carries out - including those who compile budgets - certain authorities originating from regional autonomy. In the discussion of the draft *APBD* some things need to be considered, for example, the preparation of *KUA* and *PPAS* in accordance with the Regional Government Work Plan/*Rencana Kerja Pemerintah Daerah* (Hereinafter referred to as *RKPD*). Of these various things, one of the priority scales of regional development must be compiled in the draft *APBD*. One of the priority scales of regional development is mandatory government affairs unrelated to basic services such as the labour sector as regulated in Article 12 paragraph (2) letter a of Law No. 23 of 2014).

The government issues instructions for regional financial management, which encompass the preparation of the *APBD*, specifically outlined in Government Regulation No. 12 of 2019. The Minister of Home Affairs issues annual guidelines for preparing the *APBD* in accordance with government regulations. Finally, the Minister of Home Affairs issued Minister Regulation No. 15 of 2023 about instruction for Preparing the *APBD* Year 2024. The *APBD* preparation guidelines are the main policies that provide guidance and direction in the preparation, discussion and stipulation of the *APBD* for local governments as regulated in Article 1 point 2. The guidelines mention fiscal incentive policies, namely transfers to regions. These fiscal incentives are sourced from the *APBN* and mandated to local governments to achieve based on specific criteria.

In Indonesia, fiscal decentralisation is carried out from the expenditure rather than the revenue.¹⁹ Guidelines in this Minister Regulation state that in the preparation of the 2024 *APBD*, it is expected to: a) manage expenditure effectively, efficiently, and focus on achieving public service targets; b) prioritise the use of budget allocations through rationalisation of regional expenditure that has not become a priority to improve the

¹⁹ Proborini Hastuti, *Op.Cit.*, p. 786.

quality of regional expenditure outputs; and c) allocate an adequate budget to accelerate inclusive and sustainable economic transformation in accordance with statutory provisions. One of the allocations of regional expenditure is in fostering industrial relations, which aims to realise harmonious, dynamic and equitable industrial relations.

The *APBD* preparation guidelines state that the *APBD* preparation is based on classification, codification, and nomenclature based on regional government affairs, programs, organisations, activities, and sub-activities which are described respectively into revenue, expenditure and financing accounts and described into groups, types, objects, details of objects, sub-details of revenue, financing and expenditure objects which are regulated following statutory provisions as regulated in Article 4 paragraph (2). Nomenclature, codification, and classification are regulated separately in Minister of Home Affairs Regulation No. 90 of 2019. The nomenclature, codification, and classification consist of: a) affairs, areas of affairs, programs, activities, and sub-activities; b) functions; c) organisations; d) funding sources; e) government administrative regions; f) accounts as regulated in Article 3 paragraph (1). Government affairs classification, codification, and nomenclature are mentioned in the Appendix of Minister Regulation No. 90/2019 jo. Decree of Minister Affairs No. 050-5889 of 2021.

Minister Regulation No. 90 of 2019 and Decree of Minister No. 050-5889 of 2021 mention the classification, codification, and nomenclature of provincial and district/city government affairs. Provincial and district/city government affairs in industrial relations are mentioned under code 2.07.05 with the nomenclature Industrial Relations Programme. The nomenclature used in the industrial relations programme to refer to provincial matters includes:

- a. Ratify and register company regulations and collective labour agreements for those with working areas in more than one regency/City. Implement data

collection and information on labour social security and industrial relations facilities;

- b. Prevent and settle industrial relations disputes, strikes, and company closures affecting interests in one provincial area. Implementation of verification and recapitulation of membership in employer organisations, confederations, and federations of trade unions/labour unions and non-affiliates. operational implementation of the provincial tripartite cooperation agency;
- c. Determination of minimum wage, both provincial, provincial sectoral, district/city and district/city sectoral.

Meanwhile, the nomenclature of district/city affairs in the industrial relations programme consists of:

- a. Ratify and register company regulations and collective labour agreements for companies that operate only in one regency/city. Implement data collection and information on labour social security and industrial relations facilities;
- b. Prevention and settlement of industrial relations disputes, strikes and company closures in regency/city areas;
- c. Implementation of verification and recapitulation of membership in employers organisations, confederations and federations of trade unions/labour unions and non-affiliates;
- d. Operational implementation of the district/city regional tripartite cooperation institution.

Although there are complete guidelines for preparing *APBD* related to industrial relations affairs, several things have not been adjusted to the jurisdiction of local government affairs, especially the provincial governments authority to determine *UMSP* and *UMSK*. According to the provisions of the Employment Law, *UMSP* and *UMSK* are no longer in effect, so it is necessary to adjust the division of affairs as a basis for

determining fiscal decentralisation, especially in relation to the determination of *UMSP* and *UMSK*.

2. Fiscal Decentralisation in the Implementation of Regional Autonomy in the Industrial Relations Sector has Synergised with National Fiscal Policy

The financial crisis and post-COVID-19 conditions have resulted in sluggish economic growth and rising inflation. Some policymakers call for fiscal policy to get the economy back on track. Certain fiscal policies can increase the economy's potential and help deal with some of the long-term economic challenges.²⁰

The objective of improving the application of financial relations among the regional and central governments is to achieve an adequate distribution of national resources by ensuring transparency, accountability, and fairness. The objective of this enhancement is to establish equitable allocation of public services and enhance the well-being of the community across the Republic of Indonesia. A general explanation of Law No. 1 of 2022 states that the financial relationship among the regional and central governments is based on four main pillars to establish an optimal distribution of country's resources. The pillars consist of: a) establishing a tax system that facilitates the effective distribution of national resources; b) developing financial connections among the regional and central government to address both horizontal and vertical disparities through transfer policies and regional debt financing; c) promoting enhancements in the quality of regional expenditures; and d) ensuring fiscal sustainability.

A General Explanation of Government Regulation No. 1 of 2024 stated “The financial link between the regional and central governments provides the opportunity for implementing national fiscal policy coordination. Achieving national fiscal policy synergy between the regional and central governments is achieved through efforts to

²⁰ Dennis Bonam, *et. al.*, “The Effects of Fiscal Policy at the Effective Lower Bound”, *Macroeconomic Dynamics*, Vol. 26, No. 1, 2022, p. 149.

harmonize national fiscal policy. Harmonization of national fiscal policy is a process or effort to align, harmonize, and/or adjust fiscal policy among the government regional and central governments". In the context of fiscal policy, it involves harmonizing, adjusting, and/or harmonizing the management and regulation of state and regional revenues, expenditures, and financing. This is done to carry out allocation and distribution functions. To ensure stability, economic growth, public services, and community welfare, harmonization is carried out to optimize regional debt financing, funding, and implementation of synergistic national fiscal policies. The framework governing financial interactions between the central and regional governments includes the process of aligning fiscal policies.

National fiscal policy is reflected in the *KEM PPKF*, the last edition of which was in 2024, which raised the theme "Fiscal Policy Direction in Accelerating Inclusive and Sustainable Economic Transformation", which is different from the 2023 fiscal policy theme, namely "Improving Productivity for Inclusive and Sustainable Economic Transformation".²¹ Fiscal policy in 2024 is divided into two focuses, namely short-term policy focus and long-term policy focus. The short-term policy focus on the 2024 fiscal policy architecture is aimed at accelerating inclusive and sustainable economic transformation by considering current economic dynamics and future prospects by focusing on:²²

- a. Reducing extreme poverty in Indonesia by 2024 through three policy strategies: reducing public spending, increasing public income, and reducing the number of pockets of poverty;

²¹ Kementerian Keuangan, 2024, "Kerangka Ekonomi Makro dan Pokok-Pokok Kebijakan Fiskal Tahun 2024", Kementerian Keuangan, Jakarta, p. 63.

²² *Ibid*, p. 63-69.

- b. Allocating a budget to reduce the prevalence of stunting through ministry/agency spending mechanisms and transfer to the region to accelerate the reduction in stunting to 14% by 2024;
- c. Efforts to control inflation to maintain economic stability and people's purchasing power;
- d. Increase investment to encourage economic growth. One of the efforts made is to increase the quality of human resources.

Of the four short-term focuses of fiscal policy in 2024, when compared with policies in the field of industrial relations that have adopted fiscal decentralization, there is synergy, at least for the third and fourth focuses, namely those related to controlling inflation and increasing investment. In the field of industrial relations, there is a wage policy, which includes the policy of setting minimum wages, where this policy supports the direction of fiscal policy. This is closely related to the function of wages, namely: 1) wages are given to meet the basic needs of workers and their families; 2) when providing wages, employers calculate workers wages based on production; 3) in Pancasila industrial relations, workers wages are not only a component of production costs but also have a social function, namely meeting the needs of a decent living for workers and their families; 4) creating a sense of justice to humanize people and fifth, efforts to achieve income equality.²³ Apart from wages in general, the policy of implementing wage structures and scales and several other wage policies is a synergistic step between the application of affairs in the field of industrial relations and the short-term focus of fiscal policy in 2024.

The long-term focus in fiscal policy in 2024 is directed at overcoming structural problems by focusing on:²⁴

²³ Rachmad Abduh, "Perspektif Kesejahteraan Tenagakerja dengan Model Penetapan Upah Minimum Kabupaten Kota", *Iuris Studia: Jurnal Kajian Hukum*, Vol. 3, No. 1, 2022, p. 39.

²⁴ Kementerian Keuangan, *Op.Cit.*, p. 70-83.

- a. Consistently improving the quality of human capital by allocating 20% of APBN education funds, providing quality health services, allocating the health budget through transfer to the region, and social security programs for people experiencing poverty;
- b. Accelerate infrastructure development to increase competitiveness and production capacity. Fiscal policy is directed at accelerating the development of infrastructure to support ease of doing business and economic transformation;
- c. The government's commitment is to encourage the value addition of economic activities through downstream natural resources;
- d. Encourage strengthening institutional reform and simplifying regulations through simplifying regulations and simplifying bureaucracy;
- e. Encouraging the development of a green economy.

Of the four medium-term focuses of fiscal policy in 2024, when compared with policies in the field of industrial relations, which have adopted fiscal decentralization, there is synergy, at least regarding the acceleration of infrastructure development to increase competitiveness and production capacity. Infrastructure will be closely related to increasing investment, and ultimately, the role of fostering industrial relations in companies will be very necessary. So, the implementation of industrial relations must be directed at pro-investment government policies that are marked by accelerated infrastructure development.

Apart from the direction of fiscal policy in accelerating inclusive and sustainable economic transformation, the 2024 fiscal policy strategy also contains the main points of fiscal policy consisting of state revenue policy, state expenditure policy and deficit and financing policies.²⁵ The 2024 state revenue policy is directed at encouraging the optimization of state revenue by maintaining the investment climate and

²⁵ *Ibid*, p. 83-136.

environmental sustainability. Tax revenues support state revenue policy. The administration of affairs in the field of industrial relations does not contribute to state revenues because it is not an institution that has the authority to manage state revenues.

What is very important in carrying out affairs in the field of industrial relations is related to state expenditure policies. The development of industrial relations requires a significant quantity of budget to increase the understanding of industrial relations stakeholders regarding matters relating to employment. State spending policies are directed at efficiency and effectiveness to increase spending quality.²⁶ The government's efforts have consistently made various improvements and mechanisms in planning and budgeting government spending. This aims to plan and use budgets to carry out affairs in industrial relations to be effective and efficient to reach every actor who plays a role in industrial relations.

Law No. 1 of 2022 contains efforts to reform fiscal decentralisation. Fiscal policy synergy functions to accelerate the achievement of state goals. Article 169 Law No. 1 of 2022 states “That the government synergizes national fiscal policy through: a) aligning central and regional fiscal policies; b) determining the maximum limit for *APBD* deficit and regional debt financing; c) control over regional debt conditions; and standard chart of accounts synergy”. Article 170 of Law No. 1 of 2022 shows the synergy of development and regional fiscal policies with the *RPJMN*, government work plans, *KEM PPKF*, presidential directives, and statutory regulations. To manage resources to achieve development goals more efficiently, central and regional fiscal policies must be in synergy with each other. To carry out the mandate of synergizing fiscal policy among the regional and central governments and to harmonize national fiscal policy by the government. In addition, the mandate functions as a guideline for

²⁶ *Ibid*, p. 101.

regional governments in formulating their own development and fiscal policies, which are regulated in the *KUA* and *PPAS* of each region when preparing the *APBD*. By aligning development directions, strategies, and targets from an economic and welfare perspective, efforts are made to integrate central and regional policies.²⁷

With the existence of various regulations regarding regional autonomy in the field of industrial relations and fiscal decentralization including: a) Law No. 23 of 2014; b) Law No. 13 of 2003 jo. UU No. 6 of 2023; c) Law No. 1 of 2022; d) Minister of Home Affairs Regulation No. 15 of 2023; e) Minister of Home Affairs Regulation No. 90 of 2019; and f) Minister of Home Affairs Decree No. 050-5889 of 2021, then the synergy and harmonization of fiscal policy in *KEM PPKF 2024*, shows that the implementation of government affairs in the field of labor, especially industrial relations in the context of decentralization and fiscal decentralization, has synergy with national fiscal policy.

D. Conclusion

Even though it has not been specifically regulated in law, fiscal decentralization has helped regional autonomy in Indonesia so far. Presently, the current legal mechanisms for regulating fiscal decentralisation facilitate the advancement of regional economic growth and the promotion of regional economic endeavours. They will also serve as a foundation for future legislation governing fiscal decentralization. The strategy of fiscal decentralisation enables regional governments to leverage their own regional economic resources to address diverse challenges. Apart from providing benefits, this policy also enables corruption. In addition, there are additional challenges, such as ineffective use of local revenues, lack of supervision from the central government, and lack of community participation. With the existence of regulations related to government affairs in the labor sector, especially industrial relations, in the guidelines for preparing the *APBD*, fiscal

²⁷ *Ibid*, p. 137.

decentralization has been adopted in the arrangements for the division of industrial relations affairs. In preparing the *APBD*, apart from considering the regional government's authority in administering government, it also considers the regional government's authority in managing finances. The application of affairs in the field of industrial relations has been synergistic with a short-term focus on the direction of fiscal policy in 2024, namely related to controlling inflation and increasing investment and a medium-term focus related to accelerating infrastructure development related to increasing investment so that the role of industrial relations is very necessary. The application of government affairs in the field of labor, especially industrial relations within the framework of decentralization and fiscal decentralization, has synergy with national fiscal policy with many regulations regarding central and regional financial relations, employment regulations, regional financial management regulations and guidelines for preparing the *APBD*.

Changes in Law No. 6 of 2023 have changed the provisions that abolish the application of *UMSP* and *UMSK*, so it is necessary to adjust the division of affairs as a basis for determining fiscal decentralization, especially in relation to determining *UMSP* and *UMSK*. It is necessary to consider the direction and strategy of fiscal policy in preparing the *APBD*, especially in preparing the expenditure budget in the field of industrial relations. Especially in optimizing spending to increase the effectiveness and efficiency of implementing industrial relations affairs, so that it can reach every role player in industrial relations.

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