

The Efficiency of the Omnibus Law and Its Impacts on Investment and Labor in Indonesia: An Economic Analysis of Law from a Transcendental Perspective

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ABSTRACT

This article analyzes the application of the Economic Analysis of Law in assessing the efficiency of the Job Creation Omnibus Law in Indonesia. The focus of this analysis is on how this deregulation policy influences the efficiency of the national economy, increases investment, and creates a balance between economic growth and social justice. Using the approach of the theories of legal efficiency, Pareto Efficiency, Kaldor-Hicks Efficiency, and Institutional Efficiency, this research found that the Omnibus Law has normatively succeeded in decreasing some transaction costs, while encouraging an investment climate. However, substantively, it still leads to a gap in benefit distribution, which especially affects workers and lower-level citizens. From the Prophetic Law perspective developed by Prof. Absori, true legal efficiency must be just and bring benefits (*maslahah*), i.e., a law that is not only economically efficient, but also humanist, socially just, and has spiritual morality. Therefore, the Omnibus Law needs to be directed to a prophetic economic efficiency model, i.e., efficiency that balances the market, human beings, and legal morality.

Keywords: Economic Analysis of Law, Omnibus Law, Legal Efficiency, Social Justice.

INTRODUCTION

Since its application at the end of 2020, Law No. 11 of 2020 on Job Creation (hereinafter called the Omnibus Law/the Job Creation Law) becomes the departing point for regulatory policies in Indonesia that aim to increase the national competitive power through the simplification of inter-sectoral regulations and the acceleration of investment. The government emphasizes the argument that regulatory harmonization and the release of bureaucratic

obstacles will create a more conducive investment climate, encouraging economic growth and the creation of more job opportunities (the World Bank welcomes this step as an effort to create a more competitive investment environment).

However, the goal of regulatory efficiency leads to a central question for legal-economic analysis, namely: does the simplification and the creation of more flexible regulations increase socio-economic efficiency, or does it actually shift the social cost to the working group or vulnerable citizens? Several initial economic analyses show that reformation targeting an economic increase may upsurge the economic output, but these results depend on the regulatory implementation design, the enforcement quality, and the market's response towards the signal of new policies (Haryanto & Resosudarmo, 2021). The study of the World Bank on the initial impacts of investment reformation highlights that regulatory changes must be accompanied with administrative capacities and legal certainty to truly gain the benefits of investment (Jazuli, Idris, & Yaguma, 2022).

One of the most controversial aspects of the Omnibus Law is the labor cluster, where the Job Creation Law revises several protective stipulations on traditional labor for the flexibility of the labor market. Critiques from academicians, work unions, and societal organizations assess that the decreasing or weakening worker protection (such as regulations on work termination, wages, outsourcing, and work contracts) may decrease worker welfare, increase income uncertainty, and weaken the bargaining power of workers, even though these policies are claimed to be able to decrease compliance costs for business owners and encourage recruitment. Literary analyses show that the decrease in protection without compensation mechanisms or adequate safety nets may potentially lead to an unequal distribution of benefits between investors and workers (Chamdani, 2023).

Empirically, several studies on input-output and initial macro have tried to measure how far the Omnibus Law may potentially change the pattern of sectoral investment, and its impacts towards labor absorption (Saputra, 2021). For instance, sectoral economic analysis found that the deregulation of permits and the rearrangement of incentives may increase investment in several sectors, especially manufacture and infrastructure. However, the net effect on job creation depends on the capital intensity of that investment as well as the level of technological usage (capital-intensive vs labor-intensive) (Aginta & Someya, 2022). In other words, the increase in investments does not automatically end in a significant increase in labor absorption if that investment tends to be capital intensive. Initial input-output studies on the Omnibus Law

also emphasize the need to consider the environmental impacts and other economic impacts when assessing policy efficiency (Kurniati & Abdillah, 2025).

Apart from the purely economic aspect, the effectiveness of the Omnibus Law is closely linked to the dimensions of legal certainty and regulative governance. Investors require stable and predictable regulations, as well as a just law enforcement, to create long-term decisions. Quick regulatory changes or a lack of clarity in the implementation may create legal risks that will actually decrease the interest to invest. This certainly contradicts the main objective, which in the end will damage the goal of reformation. International reports and analyses emphasize that regulatory simplification must be accompanied by monitoring investments, implementation transparency, and coordination between the central-regional levels, so that the economic benefits may be extensively internalized (Wicaksono et al., 2026).

The socio-political dimension is also inseparable from efficiency analysis. Public resistance, demonstration by workers, and civil protests that have emerged since the legislation to the post-implementation processes of the Omnibus Law show the people's resistance to the perception of weakening labor rights and the potential for distributive injustice. Protest movements and reports from community organizations highlight the risk of policy legitimacy. This happens as the impacted groups feel that they are not involved in the formulation of that law or that they experience losses from regulatory changes. Such a condition may, in turn, lead to political and social costs that influence the mid-term investment climate (Sihombing & Hamid, 2023).

From the perspective of the economic analysis of law, the evaluation of regulatory efficiency does not only assess whether or not the Omnibus Law decreases compliance costs or increase gross investment figures, as there must also be a comprehensive measure of social costs-benefits: (1) Its impacts on worker welfare (income, social protection, and risk of unemployment), (2) Its impacts on distribution (who obtain the benefits vs who must bear the cost), (3) Social and environmental externality, and (4) Long-term implications towards productivity and innovation. Quantitative methods, such as cost-benefit analyses, input-output models, and micro data-based empirical evaluation (firm-level and household surveys), are highly relevant to answer these questions.

In the context of Indonesia as a developing country with regional heterogeneity, a national aggregate-based analysis risks equalizing conditions that actually vary between the

regions. The implementation of the Omnibus Law at the regional level, including investment permits, interactions with regional regulations, and the capacity of local institutions determine how big that policy's effects can be felt in the field. Therefore, studies that combine the macro-economic approach and sectoral or regional case studies will provide a more realistic illustration on the efficiency of the Omnibus Law and trade-offs between the goal to increase investment and labor protection (Adam, 2025).

Law No. 11 of 2020 on Job Creation (Omnibus Law) was formulated with the main goal of creating regulatory efficiency, improving the investment climate, and expanding the job market in Indonesia. The government argues that regulatory overlap and lengthy bureaucratic procedures have inhibited national economic growth; thus, there is a need for legal simplification through an omnibus approach to increase global competitiveness.

However, the deregulation approach that was carried out through the Omnibus Law obtained sharp critiques from legal and economic academicians. For instance, Asshiddiqie, Mohamad, and Edi (2020) assessed that the formulation of the Omnibus Law ignored the checks and balances principle and may potentially weaken the legal state principle, as the legislation process was too quick and was not participatory enough. According to them, economic efficiency cannot be used as a justification to ignore legal legitimacy and procedural democracy, as in the state administrative law context, every legal product must guarantee the due process of law as a fundamental element of the Pancasila legal state (Asshiddiqie et al., 2020).

The Omnibus Law tends to stand on the positivistic paradigm that places economic efficiency above the values of social justice. From the perspective of prophetic law developed by Absori (2018), economic regulations should ideally be directed to the achievement of substantive justice based on the values of humanity, justice, and moral sustainability. He assesses that policies which emphasize market efficiency may potentially ignore the state's responsibility to vulnerable groups, especially the working class and communities impacted by development (Asshiddiqie et al., 2020).

In the context of the Economic Analysis of Law, it is true that legal efficiency becomes an important measure for policy design. However, as argued by Posner and Rosenfield (1977), the measure for efficiency cannot be separated from the consideration of the distribution of social benefits and costs. The application of the Omnibus Law without a social correction instrument may potentially produce pseudo-Kaldor-Hicks efficiency, i.e., efficiency which

brings benefits to certain groups (investors or large business owners) but generates losses for other groups without just compensation.

Apart from that, Prof. Satjipto Rahardjo (2009) gives a reminder that the law cannot only be narrowed down to a technocratic instrument to achieve economic efficiency. The law also functions as a moral and social instrument to achieve substantive justice. Therefore, a legal approach that is merely “instrumental” needs to be criticized, so that it is not trapped in an efficiency logics that neglect the dimension of humanity (Rahardjo, 2009).

Another critique originated from Prof. Maria Farida Indrati, who assessed that the Omnibus Law legislation technique does not fulfill the principle of legal regulation formulation as regulated in Law No. 12 of 2011. The rushed formulation process that lacked public participation was deemed to threaten legal certainty and decrease the legitimacy of the regulation. This shows that the goal of legal efficiency that the government carried is not fully in line with the good regulatory governance principle (Setiawan, 2025).

By considering these various perspectives, the evaluation of the Omnibus Law needs to be placed within the framework of legal economic analysis that not only assesses administrative efficiency, but also considers social impacts, distributive justice, and normative legitimacy of that deregulation policy (Montfaucon, Senelwa, & Doarest, 2023).

In the end, it should be noted that the empirical evidence is still currently developing, and most of these earlier studies show heterogeneous results: There are signals for the increase in investment potentials, but also evidence for the weakening labor protection, which creates distributive concerns. Therefore, a comprehensive legal economic analysis needs to combine: (1) a doctrinal review of regulatory changes (what have been changed and how the legal mechanisms were), (2) empirical analyses of the (sectoral and regional) impacts of investment, (3) an impact analysis of the labor market (absorption, wages, and work contracts), and (4) an evaluation of social costs and benefits that combine the environmental and social legitimacy aspects (Kaplow & Shavell, 2002).

Law No. 11 of 2020 on Job Creation (Omnibus Law) was designed with the main goal of simplifying regulations, strengthening legal certainty, and increasing the national economic efficiency through the acceleration of investment and the creation of job opportunities. However, from the Economic Analysis of Law (EAL) perspective, regulatory effectiveness and efficiency cannot be measured only from the success in gaining investment, but also from how

far these regulations provide holistic social benefits without creating a high social cost. Legal efficiency within the EAL framework must encompass a balance between transaction costs, distribution of benefit, as well as protection of impacted groups. Therefore, this research strives to analyze how far the Omnibus Law truly produces an optimum socio-economic efficiency for Indonesia.

Based on the background above, this paper aims to answer the research question: How does the Omnibus Law's application influence the national economic efficiency, especially regarding the increase in investment as well as the dynamics of the labor market in Indonesia?

RESEARCH METHOD

Type of research

This research employed the normative-empirical (juridical-sociological) legal approach, with a foundation of prophetic legal philosophy as a reflective framework (Nasution, 2008). This approach was chosen as the research topic not only assessed the legal effectiveness and efficiency in an empirical manner, but also tested the philosophical values that become the basis of the legal formation and application, especially regarding the balance between economic efficiency and social justice (Suryabrata, 2012).

This normative approach was used to analyze positive legal norms, such as Law No. 11 of 2020 on Job Creation and its derivative regulations and Decision of the Constitutional Court No. 91/PUU-XVIII/2020. Meanwhile, the empirical approach was used to assess the real impacts of the regulatory application towards the efficiency of the national economy, investment, and the condition of the labor market (Aaken, 2011).

From the legal philosophy perspective, this research departs from the perspective of Absori (2018) on prophetic law, which emphasizes that legal efficiency must be accompanied by the values of humanization, liberation, and transcendence. This approach enriches the Economic Analysis of Law (EAL) analysis, so that it is not merely utilitarian, but also considers the dimensions of morality and social benefit (*maslahah*).

Research approach

This research employed several research approaches. The first one was the statute approach, which was used to analyze various stipulations in Law No. 11 of 2020 on Job Creation

and its derivative regulations, including implementing regulations in the labor, investment, and environmental sectors. The objective was to gain an understanding of how far these legal norms contain the principles of social justice and economic balance.

The second approach was the conceptual approach, which analyzed concepts on economic efficiency, distributive justice, and social welfare in the context of the national economic law. The authors used Aristotle's idea on distributive justice, as well as the prophetic law theory of Absori (2021), which emphasized the integration of humanization, liberation, and transcendence values in the development of economic law.

The third approach was the philosophical approach, which was used to understand the philosophical basis for the formation of the Job Creation Omnibus Law, especially related to the values of Pancasila as the source of all sources of the state's laws. This approach refers to the perspective of Rahardjo (2008) on progressive law, which places substantive justice above formal certainty.

The last approach was the historical approach, which was used to browse the historical approach of the Job Creation Law's formation, starting from the deregulation and debureaucratization ideas that emerge during the economic reformation era, up to the public debates that highlight the gap of benefit between business actors and workers.

Legal materials

In this research, the authors employed primary, secondary, and tertiary legal materials. The primary legal materials consisted of Law No. 11 of 2020 on Job Creation (as well as its amendment through Governmental Regulation in Lieu of Law No. 2 of 2022), the Republic of Indonesia's 1945 Constitution, Law No. 13 of 2003 on Labor, and Law No. 25 of 2007 on Capital Investment.

The secondary legal materials consisted of academic literature and relevant research results. The authors also analyzed articles, economic and legal journals, as well as analyses on public policies regarding the Omnibus Law. Lastly, the authors also employed tertiary legal materials, encompassing legal dictionaries, legal encyclopedia, and credible online sources.

Techniques to collect and analyze legal materials

The authors collected legal materials through library research by browsing various legal regulations, books, scientific journals, and academic publications. The analysis of legal materials was carried out using the qualitative method of analysis and a deductive-inductive approach. The deductive approach was used to describe general principles, such as economic efficiency and social justice, which were then tested against concrete norms in the Job Creation Law. Then, the inductive approach was used to draw a normative conclusion from legal facts and social reality that emerge as impacts of the Omnibus Law application. This analysis was directed to assess how far the Job Creation Omnibus Law fulfills the objective of the prophetic law, i.e., creating a balance between efficient economic development and social justice that orients towards the values of humanity and transcendence (Rahardjo, 2008).

Analytical framework

The analytical framework of this research was based on three main pillars of the prophetic legal thought pioneered by Absori (2021), namely: (1) humanization, which assesses whether or not a law may humanize labor and does not turn them into mere production instruments, (2) liberation, which assesses how far the Omnibus Law liberates workers and small economic actors from the structural gap, and (3) transcendence, which assesses whether the moral and spiritual values of the Pancasila become the basis of national economic policies.

These three pillars were combined with Rahardjo's (2008) thought on progressive law, which places human beings as the center of law (the law is for human beings, not human beings for the law). Thus, the discussion not only has legalistic characteristics but also encompasses moral and social characteristics.

RESULTS AND DISCUSSION

The Economic Analysis of Law (EAL) approach views the law as an instrument with economic functions, i.e., making social relationships efficient, decreasing transaction costs, as well as increasing social welfare (Posner, 2007). From this perspective, a good law is not only that which is according to the procedures, but that which can also produce allocative efficiency, namely, optimum resource distribution. This efficiency concept becomes relevant when it is

applied to analyze the Job Creation Omnibus Law, which is normatively claimed to be a form of regulatory reformation to accelerate investment and the creation of job opportunities.

However, the application of the *EAL* in the context of the Indonesian law cannot be separated from the moral and social dimensions. As reminded by Prof. Absori (2022b), “Legal efficiency cannot only be reduced into an instrument of economic rationality, as in essence, the law is a facility to achieve social benefits (*maslahah*) and justice.” Therefore, to assess the Omnibus Law, there needs to be a legal efficiency approach that is not only economical but is also based on the values of substantive justice and social sustainability (Absori, 2022b).

Pareto efficiency and the Job Creation Law

The Pareto Efficiency concept, which was pioneered by Vilfredo Pareto (1906), assesses that a policy is deemed efficient if it can increase one’s welfare without decreasing the welfare of another party. In this framework, the Omnibus Law should ideally create a balance between investors’ and workers’ interests, between the ease to create businesses and social protection rights (Pareto, 1906).

However, several experts assess that this policy actually sacrifices a certain group for the efficiency of the macro-economy. Prof. Jimly Asshiddiqie (2021) states that the process in forming the Omnibus Law was carried out in a rushed manner that lacked participation. It had the tendency to neglect the principles of transparency and protection of vulnerable groups. This makes the policy fail to achieve Pareto Optimality, as the benefits that some parties (business owners/investors) obtain were produced through the decrease in other parties’ rights (i.e., workers and local citizens) (Asshiddiqie, 2021).

According to Prof. Absori (2022), the Omnibus Law represents “an inhumane logic of economic efficiency”, as it assesses the law merely through speed and market flexibility, without considering ecological balance and social morality. From the prophetic law perspective developed by Absori, legal efficiency must be accompanied by the value of benefit (*maslahah*), namely a benefit that not only has material benefits, but also spiritual and social ones. This means that true efficiency does not happen when economic profits increase, but when the law has the capability to create a balance between human beings, the economy, and the environment (Absori, 2022a).

Based on this analysis, the authors opine that the Job Creation Omnibus Law fails to achieve legal efficiency in the Pareto or prophetic definitions. It may be efficient from an administrative and investment perspective, but it is not socially and ecologically efficient. In the long run, such an efficiency actually creates negative externalities in the form of the decrease in labor welfare, environmental degradation, and the decrease in legal legitimacy. Therefore, the regulatory reformation in Indonesia needs to be directed to a justice-based efficiency, where the law not only maximizes economic growth, but also guarantees a just and sustainable distribution of benefit.

By referring to the theories on the Pareto Efficiency, the Kaldor-Hicks Compensation Principle, and institutional efficiency (Kaldor & Hicks, 1939; Pareto, 1906), as what will be discussed in the next section, the authors argue that the legal efficiency model that is efficient for Indonesia is inclusive efficiency, i.e., efficiency that considers three main aspects:

1. Allocative efficiency (optimum resource allocation without causing social inequality),
2. Institutional efficiency (regulations that are adaptive but democratically accountable),
and
3. Prophetic efficiency (the law that balances the economic dimension with the values of social benefit (*maslahah*) and spirituality).

Therefore, the Job Creation Omnibus Law should not be perceived as a success in deregulation, but rather as a momentum to evaluate the direction for the development of the national economic law, whether it truly takes the side of public welfare, or does it only bring benefits to the capital and the market.

Kaldor-Hicks efficiency and the justification of economic deregulation

The Kaldor-Hicks Efficiency theory (Kaldor & Hicks, 1939) expands Pareto's ideas by acknowledging that a policy may be deemed efficient if the party that obtained a greater benefit can theoretically compensate the party experiencing losses, even if that compensation is not truly given. Based on this theory, deregulation in the Omnibus Law may be deemed efficient if the aggregate benefits (increase in investment, economic growth, and the availability of job opportunities) are greater than their losses (the decrease in social rights).

The Indonesian government utilized these logics when formulating the Job Creation Omnibus Law. Permit deregulation and labor flexibility are deemed to increase the ease of doing business and create an economic multiplier effect. Data from the Capital Investment

Coordinating Board/BKPM (2022) shows that there is an increase in investment by 8.3% post-Omnibus Law implementation, which shows a positive effect on the growth of the national economy.

However, Prof. Absori (2022) criticizes this approach as a form of Kaldor-Hicks Efficiency that is “morally empty.” He states that within the framework of prophetic law, efficiency must be aligned with *maqashid syariah*, i.e., the protection of the five basic values of life: the religion, the soul, the mind, the offspring, and the wealth. The economic deregulation that decreases the standard of worker protection and damages the environment cannot be called efficient, as it violates the principle of *maslahah mursalah* (general benefit). Therefore, the Omnibus Law may be economically efficient, but it is morally and socially inefficient (Absori, 2022b).

In this case, Absori’s perspective expands the Economic Analysis of Law paradigm by adding the transcendental justice dimension, i.e., the idea that the law is efficient if it does not only bring economic profits, but also creates spiritual, ecological, and social balance. This is a correction towards the economic reductionism that often becomes the basis to neoliberal policies.

Institutional efficiency and the Omnibus Law implementation

According to Douglass North (1990), legal efficiency is not only measured by the results (output), but also by the legal institution’s capability to decrease transaction costs and guarantee legal certainty. This concept is known as institutional efficiency. In the context of the Omnibus Law, the government’s main goal is to cut regulatory complexity and create a simpler legal governance. However, its practice actually shows a paradox (Faundez, 2016).

Prof. Mahfud MD (2021) gives a reminder that deregulation without institutional reformation may potentially lead to a regulatory disorder. The centralization of permit authority at the central level creates administrative confusion at the regional level and increases the risk for moral hazard. Meanwhile, Hadjon (2021) assesses that the loss of regional and public control functions violates the decentralized efficiency principle, which places decentralization as a mechanism to limit transactional costs in legal governance.

In this context, Prof. Absori et al. (2023) state that institutional efficiency cannot be achieved merely through a “regulatory cut”, as it must be accompanied by the empowerment of

the legal institution, so that it is adaptive and responsive towards social justice. They propose the eco-institutional efficiency paradigm, i.e., a form of efficiency which integrates the institutional, environmental, and morality aspects. In this framework, the new Omnibus Law can only be deemed efficient if it can decrease transactional costs without sacrificing ecological balance and social justice (Absori et al., 2023).

Based on the three dimensions of legal efficiency theory, the Job Creation Omnibus Law shows the portrait of an ambivalence between economic efficiency and social justice. Economically, it fulfills part of the principles in the Kaldor-Hicks Efficiency, as it may encourage investment and economic growth. However, from the perspectives of Pareto Efficiency and institutional efficiency, this policy fails to create a balance between groups, but rather creates a new legal uncertainty.

From the perspective of Prof. Absori (2022), true legal efficiency that brings justice and benefit (*maslahah*) is not merely market efficiency, but that which honors human beings and maintains the balance of creation. Therefore, an economic analysis of the Omnibus Law should not stop at utilitarian logics, but must be transcended into the direction of prophetic economic efficiency, i.e., law that is economically efficient, socially just, and spiritually ethical (Absori, 2022b).

The authors argue that the “Prophetic Economic Efficiency” framework offered by Absori is a form of critical reformulation of the classical utilitarian paradigm in the Law and Economics theory. If Posner (2007) and Cooter and Ulen (2016) measure legal efficiency merely from its economic output, the prophetic paradigm offers a moral-transcendental dimension: the law is deemed efficient if, apart from minimizing economic costs, it also maximizes the values of humanity and social sustainability.

In the context of the Job Creation Law, this approach demands that the legal economic analysis does not stop at the growth-based efficiency, but develops to the direction of justice-based efficiency. In other words, efficiency must be measured by more than the increase in investment, as it must also be measured from how far these policies holistically increase the quality of human life. This is in line with the idea on “sustainable legal development”, where the law must become an instrument that balances efficiency, justice, and sustainability (Iqbal, Mujib, & Lestari, 2022).

From this analysis, writers conclude that the Job Creation Omnibus Law reflects partial efficiency that lacks transcendence. It may be efficient in accelerating the flow of capital and in

simplifying regulations, but it fails to develop social harmony and legal legitimacy. Therefore, in the future, the legal renewal in Indonesia needs to be directed to a prophetic efficiency model, i.e., a law that is economically efficient, socially just, and spiritually ethical. Only through this method can the law function as a just facility of development, rather than as a mere machine of market deregulation (Sujono & Nugroho, 2023).

The government enacts the Job Creation Omnibus Law as a deregulation packet that decreases transaction costs, simplifies permits, and encourages the entrance of investments, which is in turn expected to expand job opportunities. However, the key question is, how far can this deregulation policy truly decrease transactional costs and translate them into an increase in investments that absorb labor (labor-intensive), rather than only capital-intensive investments? The answer is that the current evidence shows that there is a mixed positive characteristic in the macro investment indicator, but it is problematic at the labor and institutional certainty aspects.

Several official reports show the existence of an increase in investment realization after the enactment of the Job Creation Omnibus Law. Reports from the Investment Ministry/BKPM show an increase in investment value that is realized during the period between 2022 and 2023. It was promoted that the regulatory simplification in the Omnibus Law eases the “doing business” process. International reports, such as those from Investment Climate Statements, also records regulatory changes, including the easing of the investment negative list, the opening of several sectors for foreign capitals, and giving positive signals to foreign investors (BKPM, 2022).

However, it is important to record that time association (correlation) is not proof of causality. The increase in investment may be influenced by other macro factors (post-pandemic economic recovery, fiscal stimulus, and changes in commodity prices). Thus, the claim that the Job Creation Omnibus Law is the single cause of this increase needs to be tested using an adequate quantitative method (such as difference-in-differences and firm-level panel data). Several initial studies which analyze the interest of international investors found that even though investor perception has improved, implementation clarity and legal legitimacy become the determining factor of long-term investment decisions (Nugroho, Ronaboyd, Rusdiana, Prasetio, & Zuhluda, 2024).

From the labor perspective, empirical evidence and academic analyses show an ambivalent consequence. The Job Creation Omnibus Law changes several stipulations on labor (such as contract flexibility and wage mechanism), that demands the government to decrease formal labor costs for business owners to encourage recruitment. However, reports and studies from the International Labor Organization (ILO) and national research show the existence of an increase in the risk of precarious employment: more short-term contracts, expanded outsourcing, as well as the potential for a decrease in social protection for low income groups (“Strengthening Industrial Relations in Indonesia Project,” 2022).

Several local analyses indicate negative impacts on wages and occupational safety in certain segments, as well as worker migration due to the decrease in real buying power and uncertainty of income. These studies highlight that even though investments may increase, they are not always labor-intensive. If the investments are capital-intensive, the labor absorption is relatively small. Thus, the increase in investment does not automatically decrease unemployment or increase worker welfare (Hadi, Hamdani, & Roziqin, 2023).

Based on the Law and Economics theory, good deregulation decreases transaction costs, therefore increasing economic activities. However, experience in the implementation in the field shows two main issues: (1) legal uncertainty due to quick regulatory changes and interpretation that lacks uniformity between institutions/regions and (2) hidden social costs (such as the decrease in labor protection and environmental externality) that are not quantified in the calculation of aggregate economic benefits. This condition may actually increase mid-term transaction costs, as legal disputes, industrial conflicts, and public resistance are all factors that decrease long-term investment attraction. Institutional analysis reports emphasize the need for the synchronization of implementing regulations and the strengthening of apparatus capacity to prevent regulatory uncertainty (Salim & Rasji, 2023).

From the perspective of Kaldor and Hicks (1939), aggregate efficiency may be achieved if the parties obtaining the benefit may (theoretically) compensate the parties experiencing losses. However, the reality in Indonesia shows a lack of real compensation mechanisms: social guarantee and protection for vulnerable workers need to be strengthened, so that deregulation does not lead to a decrease in welfare. Reports from the Audit Board of the Republic of Indonesia/BPK audit and planning documents refer to the need to accelerate the social welfare roadmap and the strengthening of the Social Security Administering Agency (*Badan Penyelenggara Jaminan Sosial/BPJS*) to fill in the protection gap. Without a clear transition

and compensation mechanism, deregulation risks causing inequality in benefit distribution (Sanders et al., 2024).

From the writers' perspective, the application of the Job Creation Omnibus Law that is prepared as a deregulation instrument to accelerate economic growth and attract investment, actually shows a paradox between short-term economic efficiency and long-term socio-ecological resilience. The government argues that by cutting permits and simplifying regulations, Indonesia may decrease transaction costs and increase the ease of doing business. However, when analyzed using the Economic Analysis of Law (EAL) approach and strengthened by prophetic values, the efficiency produced by this policy seems to have partial and instrumentalist characteristics (Mahy, 2025).

From the perspective of Prof. Absori (2022b), the law cannot be reduced to a mere instrument of economic efficiency, as it must become "an instrument of social benefit (*maslahah*) and justice." True legal efficiency is not measured from the speed of obtaining permits or investment flexibility, but rather from its capability to maintain a balance between the economic, social, moral, and ecological aspects. Therefore, the Omnibus Law must be tested not only using conventional economic parameters, such as the increase in investment and the decrease in production costs, but also through the indicators of worker welfare, environmental preservation, and distributive justice (Absori, 2022b).

If perceived from the institutional efficiency theory, the Omnibus Law has not fully achieved systemic efficiency, as it results in equality in inter-sectoral coordination and an overlap of implementation in the regions. Institutional efficiency is achieved when the legal structure decreases uncertainty in economic relationship and creates an incentive that is aligned with social objectives. However, the facts in the field show that after the application of the Job Creation Law, various revisions, judicial review, and administrative confusion emerge at the implementing level. This shows that transaction costs have actually increased due to a weak legal certainty and social resistance of the new regulation (Widijowati, 2023).

In the context of labor, even though the deregulation of the labor market aims to increase flexibility and attract investors, in reality, it creates work precarization and a decrease in social protection. This violates the Pareto Efficiency principle, as the profits obtained from investors originate from the sacrifice of worker rights. Thus, there is no condition of common welfare (Pareto improvement) (Pareto, 1906).

The application of the Job Creation Law shows the existence of a fundamental change in Indonesia's labor regime, especially related to the flexibility in work relationships and the social protection mechanism. According to Asriadi and Sulaiman (2025), this regulation is designed to support the creation of job opportunities through a more conducive climate, while still maintaining the standard of labor protection in the minimum standard regulated by the state. Policies, such as the simplification of business permits, the adaptation of minimum wage regulations, as well as changes in the regulations on Specific Time Employment Agreement, are implemented to provide a more adaptive room for the business world in absorbing labor (Koeswahyono, Maharani, & Liemanto, 2022).

Even so, several stipulations creates concerns on the potential for the weakening work certainty guarantee, especially in labor-intensive sectors which are vulnerable to excessive labor flexibility practices. On the other hand, the Job Creation Law still contains the component of labor protection strengthening through the expansion of access to social security and the improvement of the mechanism of industrial relationship disputes. Asriadi and Sulaiman (2025) explain that the emergence of programs such as the Job Loss Insurance is a new step in the Indonesian labor protection system that aims to decrease the impacts of work termination risks.

Apart from that, derivative regulations of the Job Creation Law declare business owners' obligations to guarantee workers' basic rights, including occupational safety and health, as well as minimum standards in work relationships. Therefore, even though this regulation shifts the labor structure through economic flexibility, the Job Creation Law still strives to balance the market's needs with social protection for workers. Thus, this reformation can be perceived as an effort to create a more stable and competitive labor ecosystem.

From the perspective of Prof. Absori, this condition shows the domination of the neoliberal economic paradigm in forming the law. He states that a law that only emphasizes material efficiency without paying attention to the spiritual and moral aspects actually creates a value crisis in the national law development (Dimiyati et al., 2021). Therefore, the authors perceive that the "Prophetic Economic Efficiency" approach is relevant to assess the Omnibus Law. This approach emphasizes that the economic law must be rationally efficient, socially just, and spiritually ethical. This means that in assessing the success of the Omnibus Law, indicators, such as the decrease in poverty, the increase in labor productivity, as well as environmental sustainability, must have an equal position with macro indicators, such as investment and

economic growth. Therefore, legal efficiency cannot be defined in a narrow sense, as it must be defined as a harmony between economic and social benefits (*maslahah*).

In the end, the author argues that the Job Creation Omnibus Law still fails to achieve beneficial legal efficiency. Even though it may empirically accelerate the flow of capital, normatively, it is still far from the justice-based efficiency concept as idealized in the prophetic legal paradigm. This regulation requires a reorientation of values, from a mere market efficiency to moral and human efficiency. It is a form of legal transformation that not only takes the side of economic growth, but also takes the side of human development and socio-ecological sustainability.

CONCLUSION

The Job Creation Omnibus Law was conceptually designed to encourage economic efficiency through the deregulation and simplification of investment procedures. However, in its implementation, this law has not fully achieved a balance between the goals of economic efficiency and the principle of social justice, as mandated in Article 33 of the 1945 Constitution and the basic values of Pancasila. Legal reformation that is targeted to accelerate economic growth actually potentially creates inequality in the distribution of benefits for large business owners and labor, and inequality between the central and regional governments.

Normatively, the legal approach used in the formulation of the Omnibus Law tends to emphasize the logics of liberal economic law, i.e., efficiency, ease of investment, and flexibility of labor. However, these are still not enough to state the protection aspect to workers, distributive justice, and social welfare, making the law risk losing its ethical function as a social engineering facility that takes the side of humanity.

From the prophetic law perspective, the Job Creation Omnibus Law is deemed to not have fully reflected three prophetic principles: (1) humanization, as the labor flexibility policies tend to place human beings as economic instruments rather than dignified subjects, (2) liberation, as the ease in investment has not significantly liberated weak community members from economic inequality, and (3) transcendence, as the moral orientation and spiritual values of the Pancasila have not become an explicit basis to the created economic policy.

Therefore, the direction of economic law reformation through the Omnibus Law should transform into a law with social justice and prophetic morality. Economic law must place human beings as the center of development (human-centered law). Thus, in the future, there is a need for economic policies that balance growth and equality, market and morality, as well as capital interests and community welfare. The prophetic legal paradigm provides a transformative direction that economic development must be carried out with a spirit of humanization, liberation, and transcendence, so that the law is not only structurally efficient but also socially just and spiritually meaningful.

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