Poverty and Inequality in Indonesia

From Suharto to SBY
The Asian Debate on Poverty

In Asia the debate on the benefits of economic growth began in the 1970s.
In Indonesia there were heated debates from the early 1970s; GDP growth was accelerating but what was the impact on the poor?
Who were the poor? Measurement issues were controversial. Various poverty lines were suggested; they were applied to the household expenditure data from the National Economic and Social Survey (SUSENAS)
The Suharto Era

• By the late 1980s, there was some agreement among scholars that the headcount measure of poverty was falling.

• Why? Rapid agricultural growth was often viewed as the main reason especially in Java.

• Various poverty lines were used by the BPS and international agencies.

• BPS figures showed a steep decline in both urban and rural areas; the headcount measure for the country as a whole fell from 40 per cent in 1976 to 11.3 per cent in 1996.
Measurement issues

• By the early 1990s, there was much criticism of these figures. Many felt that the poverty line was too low relative to average per capita consumption data; also the Indonesian poverty line was lower than in neighbouring countries, such as the Philippines.
• Implication was that the government was massaging the data to make the Suharto-era policies look good in terms of poverty decline
• A further problem: how accurate were the household surveys on which these estimates were based?
Post-Suharto Developments

• In the latter part of the 1990s, the BPS revised the poverty line upwards, to take account of a broader definition of basic needs.
• This led to a substantial upward revision in the headcount measure of poverty in both urban and rural areas; in 1996, total headcount measure increased from 11.3 per cent to 17.5 per cent.
• SBY pledged that he would reduce the headcount measure of poverty when he came to power in 2004.
• But more recently there have been criticisms that the official line is falling relative to average consumption expenditures; again some accusations of official manipulation.
Other headcount measures

• World Bank introduced its “dollar a day” measure in the 1990s, subsequently raised to $1.25 per day. Recent WB publications also give estimates of percentage of the population below two dollars a day.

• The World Bank estimates for poverty in recent years (2008-10) are both higher than the official estimates produced by the Indonesian Central Statistics Agency.

• In 2010, the World Bank found that 18.1 per cent of the population were below the $1.25 a day line, while 13.3 per cent were below the official Indonesian poverty line.
What do the data tell us

• The various poverty estimates produced by the Indonesian statistical agency and other agencies (the ADB, WB) use data from the National Socio-economic Survey. These figures show that there is considerable bunching around the official poverty line, so that a small increase of around 10 to 20 per cent gives a much higher headcount measure. A larger increase gives a still higher headcount measure.

• Recent panel data from other surveys show that there is a lot of churning, in the sense that people falling below the poverty line in one survey are no longer poor in the next and conversely, households above the line can fall below it because of unemployment, illness etc.
Where are the poor?

- Recent BPS figures show that, in spite of rapid urbanization in Indonesia, the majority of the poor are still in rural areas, around 63 per cent in 2012.
- In 2012, the BPS figures showed that the majority of the poor were in Java, around 55 per cent.
- But the headcount measures of poverty were highest in some provinces outside Java, including Aceh, Nusatenggara Timur, Maluku, Papua and Papua Barat.
Why are people poor?

There is no simple answer to this question; causes vary across regions and social classes.
Some families fall below the poverty line through sickness, accident and old age.
Others do not have the assets (land, education and skills, family and social contacts) to get them regular and productive employment.
A history of violence and conflict affects some regions (Aceh, Maluku)
Papua and Papua Barat a special case: many indigenous people fall behind because they lack education and modern skills. They also face discrimination in the labour market.
Can social safety nets help?

- The term was hardly known in Indonesia until the crisis of 1997/98.
- Then several programs were put together in considerable haste.
- Did they really target the poor? The evidence is very mixed.
- But they were popular. In a democratic era, politicians have found these policies, including cash grants, useful as palliatives when unpopular cuts are being made to fuel subsidies, for example. There is also a growing demand for a national health insurance scheme.
Trends in Inequality

• There was some increase in the Gini coefficient of household per capita expenditures from the late 1980s to 1996, and then a fall during the crisis. Since 1999, there has been a steady increase in the Gini coefficient of household per capita expenditures from 0.31 to 0.41 in 2011.

• There has also been an increase in the proportion of the population spending less than half the average per capita expenditure, especially in urban areas. Around 19 per cent were spending less than half the average in urban Indonesia in 1984; this increased to 27 per cent in 2011. The increase was especially marked in Jakarta (from 14 per cent to 31 per cent).
Is Inequality in Indonesia worse than in other middle-income countries?

• The World Bank has published data on inequality for a range of low and middle income countries across Asia, Africa and the Middle East; inequality in Indonesia does not seem to be very high in comparison with countries such as Malaysia, Thailand or China, or most Latin American countries. Some critics argue that this is because of under-statement in the household survey data. Indonesian measures are based on expenditure per capita which gives a lower estimate than income per capita.

• Some studies have found that inequality in the provision of education is quite high; also inequality between expenditure groups in under-5 mortality seems high in both Indonesia and the Philippines compared with other developing countries.
How reliable are the data?

• Household survey data have been subject to many criticisms in Asia and elsewhere; it is frequently argued that the rich understate their incomes/expenditures especially on non-food items. Wealthy households may escape enumeration altogether. But the problem goes beyond exclusion of the very wealthy?

• There is an increasing divergence between survey data on household consumption expenditure and the national accounts data (but how accurate are the national accounts data?).

• Divergence between survey and national accounts data is found in India, and in the Philippines. Does this mean that the survey data should not be used for the measurement of poverty?
Non-monetary indicators

• A recent initiative by the Oxford Poverty and Human Development Initiative has been the construction of a “Multi-dimensional Poverty Index (MPI).

• This is a composite index which reflects deprivations in human functionings and rudimentary services across 104 countries.

• It has three dimensions, health, education and the standards of living. Two indicators are used for both health and education and a further six for living standards. The data come from a variety of surveys carried out between 2000 and 2007
What are the results?

• Indonesia was ranked 53, lower than Thailand, Malaysia, China, the Philippines and Vietnam but higher than Laos or Cambodia.
• Estimates made by the ADB of numbers of Asians in the “middle class”, that is spending more than ten dollars, but less than twenty dollars a day show that in 2005 there were only 2.55 million Indonesians compared with 3.56 million Malaysians and 6.94 million Thais. Are these results plausible, or do they indicate that the household survey data are understated?
Why has inequality been increasing in Indonesia?

- If indeed there has been an increase in inequality, as well as in relative poverty, why is this occurring?
- Clear that access to education is quite skewed; the richest 20 per cent in urban areas are far more likely to keep children in education for longer than poorer households in both urban and rural areas.
- Young people from rural areas are migrating to the cities in search of work; many end up in low productivity jobs in the informal sector.
- Poorer households more prone to illness; the loss of income drives the household into poverty.
Implications for policy?

• Several social safety net policies introduced after the 1997/98 crisis; some controversy about how well they were targeted.

• To the extent that poverty is still a rural phenomenon, increased access to land and credit, education, electricity could boost farm productivity. More employment opportunities in rural areas could slow down migration to urban areas.

• Recent agricultural surveys have shown that only a small proportion of rural households are getting access to government assistance in the form of credit, extension etc. Co-operatives established in the Suharto era only benefited village officials and other well-connected people.
Considerable regional variations

• The sheer diversity of economic conditions in Indonesia means that there is no ‘one size fits all’ strategy for improving living standards.
• In Java there is still a serious problem of ‘too many people and not enough land’ but migration to urban areas just shifts the problem, does not solve it.
• In 2009, SBY administration appeared to be moving back to the Suharto era policies; moving more people to ‘empty land’ outside Java. Unlikely to have much impact?
• Connectivity still a problem especially in Eastern Indonesia. Roads and other transport links are still undeveloped. Is decentralization helping?
• Problems of elderly poor also need attention.
Challenges for the New Administration

• Maintaining steady economic growth a necessary condition for further poverty decline, but not sufficient by itself.

• Targeted policies to improve access to education and health essential. Also bottlenecks in transport infrastructure need to be tackled

• But these policies are expensive and will have to be funded through higher taxation.

• In spite of the reforms of the 1980s, tax/GDP ratio in Indonesia still quite low. Tax evasion probably quite high.
Lessons from Other Asian Countries

• Several Asian countries have seen quite steep declines in absolute poverty over the past three decades, combined with rising inequality (China, Thailand).
• Current problems in Thailand NOT due to high absolute poverty in the north and northeast but rather to high inequality and perceptions of relative deprivation.
• Indonesia could well experience similar problems; the decentralisation measures have pushed more responsibilities to kota/kabupaten but not more funding.
• Indonesia still a fragile state; long history of regional grievances, not only in the resource-producing regions.
• These problems could well intensify in coming decades, even if reasonably rapid economic growth is sustained.