

INEQUALITIES IN INDONESIA

Astrig Tasgian

Economics and Statistics Department,
University of Torino (Italy)

XXI AISSEC Scientific Conference, Urbino, on line
October 8-9, 2020

Outline

- Vertical vs. horizontal inequalities in Indonesia: main drivers and their impact.
- Critical analysis of recent Indonesian government's policies to reduce inequalities.
- Suggested strategies to reduce inequalities in Indonesia.

Vertical vs. horizontal inequalities

Indonesia has made huge progress in reducing poverty, but has still large inequalities, both

- vertical (between individuals or households in income, consumption and assets) and

- horizontal (between groups defined by area of residence, language, ethnicity, religion, gender, etc.).

Vertical inequality in Indonesia

-Vertical inequality (measured by consumption Gini) was stable and relatively low (0.32-0.35) during the high growth New Order period (1966-1998) (6.7% average ec.growth per year). Poverty (by national poverty line) decreased from 60% in 1966 to 11% in 1996. Much of growth under the New Order was in equality-enhancing sectors (agriculture and export-oriented, labor-intensive manufacturing). Centralized-authoritarian regime with investment in health and education. Convergence of incomes across provinces.

-The Gini index fell between 1996 and 1999, since the asset richest households were the hardest hit during the Asian financial crisis of 1997-98 (the Indon. Chinese after the violence of May 1998 sent their wealth abroad, which made the income share of the rich fall).

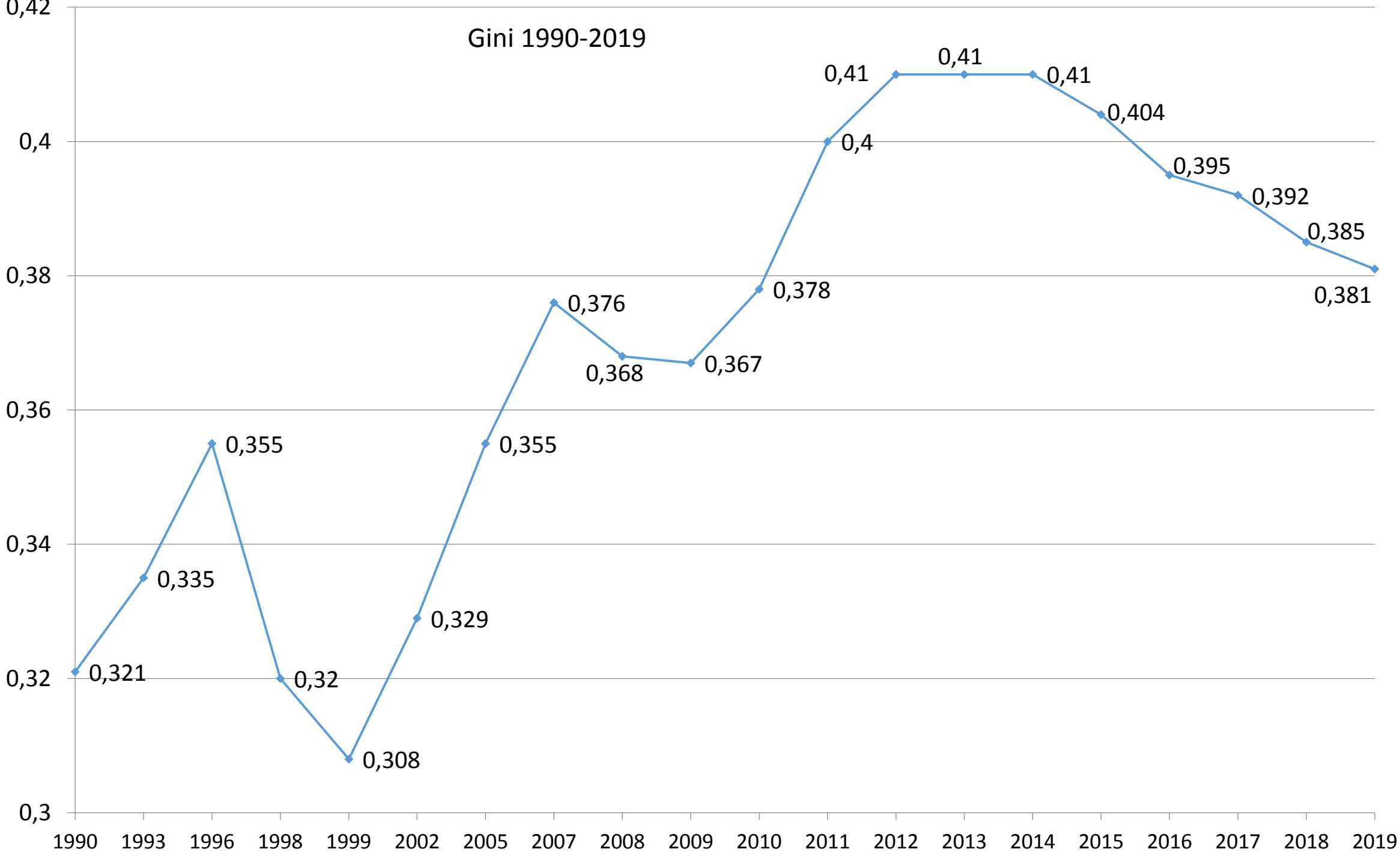
- The Gini index rose sharply since the recovery, in the period 2000-2014 (from 0.31 to 0.41), the second largest increase in the region, after China.

- It started to decline slowly since September 2014.

-In 2019 the richest 20% of the population enjoyed 46% of all households consumption, as against 17,7% of the poorest 40%.

-Gini index in rural areas is much lower than in urban. Yogyakarta has the highest Gini (0.43), followed by Jakarta (0.39). Maluku has the lowest (0.32).

Gini 1990-2019



Main drivers of inequality increase in Indonesia in 2000s

- 1. The **structural adj program** imposed by IMF after the financial crisis of 1997-98 (ec.liberalization, privatization, L mkt liberalization) has decreased the bargaining power of L and increased power of K (share of wages has ↓ and that of profits ↑; ↑ in less secure, temporary jobs; L productivity ↑ but wages not; Many of the richest people in Indonesia made their fortunes thanks to privatizations.
- 2. **Technical innovations have ↑ inequality between skilled and unskilled L force.** Inequality of opportunity from birth to develop those skills. Deindustrialization since 2000 → many new jobs created in low productivity, informal sectors. Manufacturing contributed to only 33% of the 20 mln new jobs created in 2001-2012 (WB. 2015, p.16).
- **Wage inequality increased:** the median earnings of casual workers declined from 50% of median earnings of workers in the formal sector in 2001 to 41% in 2005 and 42% in 2013, but rose to less than 60% in 2018 (Tadjoeddin, 2019).
- 3. **Low and declining tax to GDP ratio** (10% in 2017, second-lowest in South-East Asia), due to large tax evasion by the rich and lower tax rates on capital.

Wealth inequality

- There is a high and increasing concentration of wealth (financial and physical assets, such as land and property, sometimes acquired through corruption), that, in turn, determines a higher income inequality today and in the future.
- According to Credit Suisse Research Institute's 2016 Global Wealth Report, **the richest 1% own half of all the wealth**, which is the second highest (along with Thailand) after Russia from a set of 38 countries.
- The four richest billionaires in Indonesia have more wealth (\$25bln) than that the poorest 40 % of Indonesians combined (\$24bln) – 100 million people.
- Very high concentration of land in the hands of big corporations and wealthy individuals, especially in oil palm sector.

Wealth inequality

- Fall of Suharto → shift from a «tamed» to a «wild» oligarchic system (Tadjoeddin 2019). Suharto controlled and tamed oligarchs, so that they support New Order's development agenda.

-After 1998, oligarchs flourished, played a key role in the democratic process to defend or increase their wealth. Their predatory interests have captured Indonesia's new democratic institutions (Hadiz and Robinson, 2013). Financing of election campaigns: there is no ban on donations from corporations with government contracts.

Elite capture of political and economic institutions.

-Oxfam report (2017): in 2014, the majority of billionaires' wealth was generated in sectors prone to cronyism, because their profitability depends on government intervention (e.g. in the form of regulation, concessions, procurement and subsidies).

Horizontal Inequalities: urban-rural and regional inequalities

- Horizontal inequalities are unfair, as they are rooted in people's characteristics, beyond their control.
- In Indonesia there are large urban-rural and regional inequalities.
- The rural areas and the poorer eastern provinces, which have a history of ethnic and religious violence, lag behind the rest of the country on human development indicators, infrastructure, and access to quality education and health.
- Public schools are affected by less trained teachers and teacher absenteeism.
- This has a negative impact on the learning outcomes of rural and remote students (for ex. the reading speed, skills in mathematics and science according to PISA international tests).

Horizontal inequalities

- Frances Stewart (2008) defines horizontal inequalities as ‘inequalities in economic, social or political dimensions or cultural status between culturally defined groups’ (e.g. ethnic or religious groups).
- She argues that horizontal inequalities **increase the risk of instability and conflict** when their different dimensions are consistent (there is both socio-economic exclusion and political exclusion).
- In these situations leaders or elites of the deprived groups have an interest in mobilizing them and initiating a conflict.

Ethnic-religious conflicts in Indonesia in the '90s

- At least 10,000 people were killed from 1997 to 2002 (Varshney *et al.*, 2004).
- The New Order regime, authoritarian, centralizing, corrupt wanted to promote a national identity and not a pluralistic society to reflect the ethnic diversity of Indonesia. Public discussion of ethnicity was a political taboo. It created ethno-religious exclusions from power of : Dayaks and Papuans on grounds of lack of modernity, the Chinese for lack of indigeneity, the East Timorese for historical reasons, and Islam on ground of ideology.
- According to Bertrand (2004), when a political system comes under strain and loses its legitimacy, violence in response to these exclusions is inevitable (violent group renegotiation).
- Violence exploded in 1997 in a climate of economic uncertainty because of the financial crisis, and escalated dramatically with the power vacuum left by Suharto' s fall in 1998. It was a period of transition.
- Violence was highly localized : 15 districts , in which a mere 6.5 per cent of the country's population lived in 2000, account for as much as 85.5 per cent of all deaths in group violence, 1990-2003.
- Inter-religious violence caused the largest No. of deaths , followed by inter-ethnic conflict.

Ethnic-religious conflicts in the '90s

-The conflict between Christians and Muslims resulted in 5,450 deaths from 1999 to 2002 in the Maluku region and parts of Central Sulawesi.

Before 1998 it had caused very few deaths but only damage to private and public buildings. It increased in the '90s as a result of Suharto permitting a greater role to Islam in the power structure.

-Violence towards ethnically Chinese: 1,250 deaths, mainly in Java (the New Order allowed the Chinese to flourish economically, but it politically marginalized them, so they were vulnerable)

- Violence between the indigenous ethnic group of the Dayak and the immigrant ethnic group of the Madurese resulted in 2,760 deaths in Kalimantan.

- Separatists conflicts in Aceh, Timor East and Papua.

- After 2004, the composition of violence shifted as electoral and resource-related violence rose and it was more likely to lead to injuries and property damage than to deaths.

Ethnic-religious conflicts in the '90s

- Since ethno-religious violence was highly localized, to understand its causes we must consider not simply national level factors, such as the fall of the New Order, but also local-level factors. For ex. local horizontal inequalities.
- From some econometric studies (Mancini L. 2005, Bazzi S. et al. 2019) , which use district-level data, it results that **horizontal inequality has a positive and significant influence on ethnic-religious conflict.**

Gender inequalities in Indonesia

- Gender disparities are the most important example of horizontal inequalities.
- Indonesia has a GII value of 0.451, ranking it 103 out of 162 countries in the 2018 index.
- Gender inequality is associated with persistent **discriminatory social norms and stereotypes**, which establish social roles and power relations between men and women in society.

According to the *Gender social norms index* (Undp, 2020), using data from the World Values Survey (2005-2009), 88 % of Indonesian men and 73% of women show at least 2 clear biases against gender equality in areas such as politics, economic, education, intimate partner violence and women's reproductive rights.

- About 77% of men and only 55% of women say that men make better political leaders than women and that men should have more right to a job than women.
- The lowest bias is in the education dimension (university is more important for a man than for a woman).

Gender inequalities in Indonesia

- In education there has been a large reduction in gender inequality, except for technical and vocational education.
- In 2018 46.8% of women (25+ yrs.) had completed lower secondary school (55.1% of men) as against 36.5% in 2006 (46.7% of men). In 2016 the female educational attainment of a bachelor degree was 8.5% compared to 9.6% for men (WDI and Unesco data).
- **Maternal mortality ratio is still high, especially in rural areas and small remote islands:** in 2018, for every 100,000 live births, 126 women died from pregnancy related causes (HDR 2019), compared to 62 for East Asia and Pacific. However, the ratio has declined from 272 in 2000, 228 in 2010 (WDI).
- The place of child's birth (at home or at a hospital), is often decided by the husband and the larger family.

Gender inequalities in Indonesia

- **Child marriage** is still common: in 2018, **11.2 %** of women aged 20-24 (1% of men) were married before the age of 18 as against 14.5% in 2008 (in rural areas it has reduced by 5.76 percentage points, while in urban areas it has only reduced by 1%) (Unicef, 2020). Indonesia has the eighth highest absolute number of **child brides** in the world – **1,220,900**. West Sulawesi has the highest prevalence at 19.43%.
- Girls from poor and rural households and less educated are more likely to marry before 18.
- Another driver of child marriage: social norms accepting child marriage are influential among all economic levels in Indonesian society.
- Child brides are more vulnerable to domestic violence.
- The Government plans to decrease the current child marriage prevalence from 11.2% (2018) to 8.74% by 2024.

Gender inequalities in Indonesia

- There are still large inequalities in the power men and women exercise at home, in the workplace and in politics.
- Women often have no say in household decisions and bear **disproportionate responsibility for unpaid care and domestic work** (women's double work burden).
- In the Asia Pacific region women spend 4.1 times more time on unpaid care and domestic work than men.
- There are no data from time use surveys for Indonesia. But a study on unpaid care work by SMERU Research Institute (in collaboration with ids) concluded that in 2010 approximately 54.8 million Indonesians (22.7% of the total population) performed unpaid care work activities - around 93.7% of these were women, due to the persistence of gender norms about who should do care work (Study on Unpaid Care Work in Indonesia, 2016).
- In each income quintile, women's unpaid care work is three fold to six fold that of men. Interestingly, the higher the income group, the smaller the gap is.

Gender inequalities in Indonesia

The unequal distribution of unpaid care and domestic work:

- limits their ability to seek employment and income

Female participation in the labour force is 52.2 %, compared to 82% for men.

- pushes them into flexible, precarious, low-skilled and low-paid informal work that can accommodate care responsibilities.

- This limits their access to social protection, so they are more vulnerable to poverty.

- The **gender wage gap** is 34 % in the formal sector and 50 % in the informal sector, mostly due not to differences in productive characteristics but discriminatory practices (Women's Economic Participation in Indonesia, 2017).

- Female representation in the national parliament (19.8 %) and local ones has remained low, despite electoral gender quotas. The law of 2003 requests political parties to nominate at least 30% female candidates for the national and local parliaments for each electoral district. Political parties often select as candidates celebrities or relatives of prominent politicians.

Politicization of inequality

- Inequality can feed social resentment against the elites, polarizing the political debate, favouring the rise of populist parties and leaders and threatening democracy. During recent election campaigns in Indonesia, the issue of inequality has been politicized and framed in ethno-religious terms.
- Prabowo, the New Order general, ex-son in law of Suharto, who has become a populist, during 2014 and 2019 presidential campaigns, has tried to mobilize low income Muslims on the issue of economic inequalities, by saying that they were the fault of a privileged ethnic Chinese and Christian minority.
- His opponent, President Jokowi, more secular and pluralist, was falsely accused of being a Christian and of Chinese descent. He had to choose as vice-President an Islamic cleric Ma'ruf Amin to get the support of moderate Muslims.
- Political preferences determine the narratives about inequality: Prabowo's voters are more likely to consider income distribution unfair, compared to Jokowi's supporters.

Politicization of inequality

- On April 2019 Jokowi was re-elected with 55.5% of the votes. He won in 21 out of 34 provinces and performed very well in Hindu Bali and Christian North Sulawesi and Papua.
- Indonesia is now more polarized by identity politics, religious populism.

Rise of a populist radical Islam, which endorses both anti-Chinese sentiment and economic nationalism (critical of what they call “Chinese economic domination”, of mainland Chinese companies that invest in infrastructure and natural resources and bring Chinese blue-collar workers).

Recent government policies to reduce inequality

- Under President Jokowi's Medium Term National Dev. Plan (2015-19) rising inequality was identified as a key factor that weakens Indonesia's economic fundamentals: for the first time a target on inequality reduction (0.36 by 2019) and vision to «develop Indonesia from the periphery», creating employment, providing basic services, and implementing social-protection policies (Bappenas 2014).
- To reduce **income and spatial** inequality, Jokowi pursued a combination of human resources and infrastructure development (including increased broadband coverage).
- In **education**, he launched a Smart Indonesia Card (KIP):
all children from poor families receive financial assistance for education up to the completion of high school/vocational school.

Recent government policies to reduce inequality

In **healthcare**, in 2014 Jokowi's administration introduced the national health insurance program (JKN), aiming for universal health care. It covers 200 million people and is already the largest single-payer health system in the world.

This public insurance scheme aims to enroll all groups in society (rich and poor, formal and informal sector) into one risk pool. **Participation is mandatory for all Indonesians**. Employers must enroll their employees and dependent family members (in the private sector the premium for the employer is 4% of the monthly salary, for the employee 1%).

Non-employees, self-employed and informal workers must pay each month a premium that varies according to which class of facilities they desire.

The government pays the premium for the very poor.

Recent government policies to reduce inequality

-Other social programs: conditional cash transfers to poor households (Family Hope Program, PKH); subsidized rice for the poor program.

-As part of Jokowi's vision to develop Indonesia "from the periphery", since 2014 he introduced the **Village Fund** (grants to each of the 74,000 villages) to enhance the rural economy and reduce poverty through village-led development and community empowerment: village irrigation, roads, markets, clinics, etc. Each village is given autonomy to determine the use of this funding (from Rp 800 million (US\$56,200) to Rp 1 billion, with a big increase compared to a similar program in the past).

- The 2017 'Economic Justice' policy package, to tackle inequality, included measures to:

improve access to credit for micro and small enterprises,

support vocational training and increase the skills of the workforce,

increase land redistribution, providing by 2019 ownership certificates and long term leases over 21.7 million ha of land and forests to landless and small farmers and to local communities.

- Land to be redistributed is to originate mainly from forest area.

Impact of Jokowi's policies

- The implementation of Jokowi's policies has not always been effective, due partly to corruption and bureaucratic procedures.
- The Gini index has declined from 0.41 in March 2015 to 0.38 in March 2020 (as against a target of 0.36 by 2019). Urban areas have consistently dominated the improvements in equality since March 2015.
- The percentage of the population below the national poverty line dropped from 11.22% in March 2015 to 9.22% in September 2019 (as against a target of 7-8%).
- Open unemployment declined slightly from 5.81% in 2015 to 5.01% in 2019. More than half of total workers are engaged in informal employment and are low skilled. Moreover, unemployment among youth increased.
- Job creation was sluggish.** The infrastructure program has had a small impact on employment. The cash-for-work project, part of the Village fund program, has increased rural employment and reduced poverty in villages from 14.9 percent in 2015 to 12.6 percent in 2019.

Impact of Jokowi's policies

- Criticisms to the Village Fund program:

1. it has been used mostly for infrastructure development and not for community empowerment, environmental protection, agricultural productivity improvement, sustainable land use.
2. village officials often lack sufficient planning and budgeting skills.
3. lack of coordination between village and district development planning.
4. reports on the misallocation of funds and corruption, because of the poor accountability systems that are in place.
5. a lot of projects were of low quality, due to poor design and construction and lack of technical support.

Impact of Jokowi's policies

- With respect to policies in the area of education and health, it is not enough to improve the access of the poor through financial support and increasing their awareness about the importance of using these services. It is necessary to increase the quantity and quality of education and health services.
- The ambitious health reform has managed to increase the public share of total health expenditure from 35% in 2014 to 48% in 2017. However, **out-of-pocket payments** (OOPs), the most regressive form of health financing, in 2017 were **still 35% of total health expenditure** compared to 52% in 2006 and 43% in 2014 (WHO, Global health expenditure database, 2020).
- One problem with the health reform is that informal workers have to pay a premium and have difficulties to do it. So many of them are not covered.

Impact of Jokowi's policies

- Jokowi's land reform is based too much on formalization of land titles, following Hernando de Soto's approach (the National Land Agency (BPN) issued 5 mln land certificates to small holder farmers in 2017, 7 mln in 2018, and 9 mln certificates in 2019).
- In a country like Indonesia, where in rural areas much land is subject to communal ownership, governed by customary law, land certification can lead to:
 - land tenure conflicts (after splitting the communal land into small individual plots),
 - land sales by indigenous people and poorer farmers to large capital holders, if they are not provided with access to credit and appropriate technology. Thus the existing unequal land distribution can become even worse.
 - an increase of farmers' debt (they use the land certificate as a collateral for loans not only for investment, but often for consumption).

Impact of Jokowi's policies

- It recognizes only “clean and clear” land (free from competing claims), excluding areas where ownership is disputed.
- This denies millions of people a chance for legal titles and does not solve the growing rural conflicts, where the big companies are grabbing people's land for plantations, mining, tourist areas, etc. Many victims of [land-grabbing](#).
- It might have a negative impact on the environment, since of the 21.7 mln ha of land targeted by the reform 16.8 million ha are forest land.

Conclusions: Suggested policies to reduce inequality

While these measures are welcome, the Indonesian government can and must go further.

- In particular, it must do more to implement a **progressive taxation** system that raises more revenues to invest in vital public healthcare and education services, increasing their quality; Indonesia's tax-to-GDP ratio is very low. Revenue from personal income tax currently makes up only 10 percent of tax revenues, WB 2015.
- To implement more effective **wealth redistribution** strategies.
- The fight against **corruption** is crucial in this respect. Investors (especially foreign) in many sectors are discouraged by red tape, bribery and having to compete with rent-seekers that influence officials. **Strong links between oligarchy, corrupt bureaucracy and money politics.**
- For many of the elites corruption is a natural part of the statist and corporatist visions of economic development that are ideologically fashionable in Indonesia since the New Order.
- The increase in government infrastructure projects and decentralization have amplified corruption. Even in provincial towns there is a new middle class fed by corruption and infrastructure investment (local contractors, bureaucrats, politicians). Senior bureaucrats and politicians can extract 10% from infrastructure projects.
- Unfortunately, in September 2019, at the start of his second term, Jokowi allowed revisions to a 2002 anti-corruption law that weaken the ability of the anti-corruption Agency (KPK) to investigate independently and prosecute officials.

Conclusions: Policies to reduce inequality

The government must favour a more inclusive growth, expanding economic mobility and the size of the middle class (now about 20% of the population, i.e. 53 mln), whose consumption is a major driver of economic growth. The rich live in self-sufficient gated communities, with privately provided services and amenities.

The upper class will opt out of most public services. Danger that also the middle class, that bears most of the personal income tax burden, might become reluctant to pay for low quality public services that they do not use.

Policies to reduce horizontal inequalities

-Policies must address the deeper causes of horizontal inequalities, particularly discrimination and prejudice. Also, must improve the capabilities of members of deprived groups and their ability and confidence to exercise their rights.

One possible approach:

- Groups are targeted directly through **quotas** for access to jobs or education and distribution of assets. Quotas must be temporary. Minority language recognition.

Conclusions: Policies to reduce gender inequality

- Close the gender pay gap and remove barriers to women's rights and equal participation to the labour force and their access to productive assets. Women often are not aware of their rights, for ex., to land.
- Work with civil society to promote positive social norms and attitudes around women's work.
- Challenge gender stereotypes through education and media campaigns.
- Increase the representation of girls in vocational training, in science and technology education.
- The recognition, valuing and redistribution of domestic and care work is fundamental to achieving gender equality for women and girls.

Conclusions: Policies to reduce gender inequality

- It is a long term education process. Since the early age, boys must be involved in care work.
- Boys and men must be taught that care is a value as much as productivity and efficiency.
- Indonesian women's groups and organizations, such as PEKKA (Female-Headed Household Empowerment) can play a key role in empowering women and improving their participation at the local level in decision making on the use of resources for local development. This is very important today when more than 10 per cent of Indonesia's national budget is transferred directly to villages, following the ratification of the 2014 Village Law.

Conclusions

Unfortunately, today 2 factors are weakening the drive for reforms:

-a) In his second term, Jokowi, due to the need of enlarging his coalition and getting the support of moderate islamists (the vice-President is a cleric) might be forced to make compromises (greater emphasis on Islamic or sharia economy), to seek stability and consensus at the cost of genuine reforms.

Jokowi is caught between reforms and oligarchic politics. Oligarchic groups control political parties.

- b) The impact of the COVID-19 pandemic: on the one hand, it reduces economic growth and therefore the resources to finance social expenditures and reforms, on the other it increases inequalities between poor and rich and makes even more urgent some reforms (for ex. the poorest often do not have access to water to wash their hands frequently, as a necessary prevention measure).