

Jurnal Ekonomi dan Bisnis Indonesia
Vol. 18, No. 1, 2003, 1 - 8

FINANCIAL CRISIS AND ITS IMPACTS ON POVERTY IN INDONESIA

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ABSTRACT

Krisis keuangan di Asia Timur menyebar dari Thailand ke Indonesia dan negara-negara lainnya di kawasan Asia Timur melalui pasar uang dan pasar modal di mana mata uang lokal terdepresiasi dengan cepat dan dalam jumlah yang besar.

Akibat dari krisis tersebut terhadap kemiskinan sangat cepat karena depresiasi mata uang lokal mengindikasikan kenaikan harga-harga umum secara tiba-tiba, terutama harga makanan yang sebagian besar merupakan produk impor. Inflasi tersebut kemudian dengan serius mempengaruhi rakyat miskin karena mereka tidak mampu untuk mencukupi kebutuhan pangan. Konsekuensinya, kemiskinan meningkat dan proporsi populasi yang berada di bawah garis kemiskinan meningkat pula.

Untungnya, inflasi yang tinggi pada tahun 1998 sebesar 78 persen dapat dikontrol dengan cepat dan inflasi tersebut menurun hingga hanya 2 persen pada tahun 1999 dan kemudian kembali ke "normal" sekitar 10 persen pada periode 2000-2001. Penurunan harga bahan pangan secara otomatis pula menurunkan jumlah rakyat miskin hingga 50 persen. Ini disebut sebagai "transient poverty".

Indonesia pada saat ini masih menghadapi krisis keuangan dan perbankan, namun posisi ekonomi masyarakat, termasuk rakyat miskin, telah kembali ke keadaan normal. Ekonomi rakyat memang membuktikan kemampuannya untuk bertahan di tengah krisis. Namun demikian, sangat disayangkan bahwa media masih terus membesar-besarkan krisis keuangan yang merefleksikan kepentingan sektor swasta agar tidak perlu ditekan untuk mengembalikan utang mereka yang sangat besar jumlahnya.

Kata kunci: *Krisis moneter, kemiskinan sementara, IDT.*

INTRODUCTION

Unlike many other countries, developing as well as developed, poverty problem in Indonesia is more difficult to solve because both the poverty condition, and its opposite the wealth and affluence, are not considered proper to be seen by others. It is true that in the cities people tend to show off and live more luxuriously. But in the rural areas if people were asked whether they are poor or rich, they would say, "not enough" (poor) or "just enough" (wealthy). That is why when D.H.

Penny and Masri Singarimbun reported their research findings of *extreme poverty* in rural Java in 1972 (Sriharjo in Imogiri, Yogyakarta) their friends including some economists and sociologists advised them not to publish it too soon in Indonesia, because "the government officials would be very angry". Hence the report was published in a monograph form in Cornell University in 1973, and only three years later it was published in a book form in Indonesia. By that time poverty problem was already discussed publicly even by the President in public speeches.

Almost 20 years later in 1993, when the government was seriously considering policies and programs on poverty alleviation by introducing the IDT program (Presidential Decree on Left-behind villages), the decision to name some 32 percent of Indonesian villages as poor (left behind villages, the result of a scientific survey by CBS), was rejected by some Governors who do not wish their regions classified as poor regions having many poor population. In some other regions the people were delighted to receive poverty grant of Rp 60 million per village from the central government as revolving funds but objected-to-be-called poor.

In 1997-98 when the financial crisis erupted, well known as *krismon*, inflation reached 78% in one year. Poverty increased because the prices of basic needs especially rice skyrocketed and a large number of people were laid off due to the business bankruptcies. Due to this very high inflation, the government (CBS) announced (mistakenly) that poverty had reached 49 percent or 79 million people. Understandably the government official was panicky and with the help of the World Bank and the UN introduced in a hurry the *social safety net* programs patterned after a similar program in Russia after the crisis in the early nineties, which is not appropriate for Indonesia. UNICEF was talking about “the lost generation”. One of the first problems was the distinction between “new poor” caused by the financial crisis and the “old poor” which was there already at the onset of the crisis. This of course creates a lot of confusion, and “leakages” of fund occurred everywhere, from outright corruptions to the case of fund being given to the non-poor. Finally it was realized that there is indeed the so-called *transient poverty* amounted to one-third up to one half of the total poor people reported. The *transient poverty* was able to move from poor to non-poor automatically after general prices fell back from its peak during the crisis (1998). To neglect the existence of *transient poverty* become the sources of inflated number of

poverty and become one of the sources of many misuses of the SSN poverty alleviation funds.

Now, more than 5 years after the crisis, there are still many people including noted economists who do not understand the real nature of poverty in Indonesia. Many of them still believe that poverty in Indonesia is still as serious as during the crisis or becoming even worse. They like to mention the 40 millions people unemployed which can only be absorbed through investment by big businesses especially foreign investors. They never see or never want to see the growing *ekonomi rakyat*, which have absorbed the unemployment of the formal-modern sectors. These orthodox macro economists refuse to distinguish between open unemployment and disguised unemployment by saying that “they cannot afford to become fully unemployed”. This is not incorrect but surely they never accept the fact that *ekonomi rakyat* has been playing a big role in Indonesian economy and become even bigger during and after the *krismon*. Many of them like to mention the growing criminalities due to the economic crisis, but failed to recognize that indeed Indonesia is facing *total crisis* resulting from multidimensional crisis, while economic crisis or better financial crisis, is only one of them

We believe that stating that Indonesia is having only *economic crisis*, which can be remedied by macroeconomic policies, is a big mistake, if not a fatal mistake of economic analysis.

POVERTY AND INEQUALITY

Another reason why it is even more difficult to tackle poverty problem in Indonesia is the nonseparability of poverty and social inequality. Poverty is indeed one form of extreme inequality, which has become increasingly serious when economic development reached conglomeration stage at the late eighties. On the one hand, there was the feeling of relief and complacency among some

Indonesian as well as foreigner that Indonesian economy had entered *Asian miracle* or *tiger economy* stage. But on the other hand there are people in the *ekonomi rakyat* sector who felt more and more squeezed, impoverished, and left-behind. This was exactly the economic fact of life in the early nineties when the World Bank published *The East Asian Miracle* (1993) and Indonesia was included as one of the eight miracles in East and Southeast-Asia, while at the very same year the Indonesian People's Assembly warned about the growing social arrogance and social envies. This is the strange contradiction which the financial crisis 4 years later made many people taken by surprise, including many expatriate economists, because Indonesian "economic fundamentals" were considered very healthy.

If poverty was "hidden" at the beginning of the first Five Year Plan (1969), the appearance of inequalities at the end of that Plan was protested immediately by student movement. The *Malari* affair (January 1974) had indeed proved that inequality was not tolerated especially if it was caused by foreign capital, at that time it was Japanese investment. Even if *Malari* affair had prompted the government to issue various equity programs, it was not sufficient to encourage the shift of development strategy away from the growth-oriented to equity-oriented strategy. Every *Repelita* has given bigger and more important role to the private sector through the deregulation or liberalization policies on trade and capital reaching the peak with very liberal "October 88 package", which was reported to be even more liberal than in the most liberal country in the world, the USA. The result is clear, the growing strength of the conglomerates and the weakening of *ekonomi rakyat*. The World Bank Jakarta office that has helped developing the process of conglomeration warned the Indonesian government in 1993 of the danger of the growing concentration of conglomerates, but apparently was not given due attention. On the other hand the government seems to welcome the growing number and strength of

conglomerates to play the role of "competing" with the MNC, which had "invaded" Indonesian economy.

The government did not seem to realize that conglomeration initiated and deepen the process of growing inequalities because the national conglomerates joined hands with the global conglomerates to squeeze *ekonomi rakyat* even further and increased the gap between the rich and the strong with the poor and the weak. This process of the widening gap has never been checked because through the liberalization policy the government "sided" with the strong and the conglomerates.

Hence the attack of *krismon* in 1997-98 was indeed like the Bali blast, the explosion of the "time bomb" destroying the Indonesian financial sector especially the banking sector. The banking sector was severely crushed because through the liberalization policy the government let the growing number of banks from 70 to 240 banks without proper government control, many of them owned and built by the conglomerates, to collect fund from general public but to lend only to themselves. Strangely enough, if we can call it that, the government continue to side with the greedy conglomerates by giving Bank Indonesia Liquidity loan (BLBI) amounted Rp 140 trillion to bail out the Bankers' debt to their clients which are mostly the owners of the banks themselves. This wrong policy was followed by the issuance of government bonds to finance the Banking Recapitalization program, resulting the large government budget deficit, because the interest of the bond represented some 20 percent of the national budget. This banking recapitalization program is the most recent and clearest evidence of inequitable policy to side with the conglomerates on the one hand, and on the other hand to neglect the interest of the *ekonomi rakyat*, the economy of the small people. Only if this inequitable policy is recognized then we can find ways of *economic*

reform to correct the mistaken economic strategy of the New Order era (1966-1998).

POVERTY ALLEVIATION STRATEGY

Indonesia is a very large and diverse country, so that the nature of its poverty also varies from region to region. It is clear therefore that one national strategy of poverty alleviation cannot be expected to achieve its target in all regions. Most of the time a national program may succeed or fail to achieve its goals *only partly*, or a particular program must be “adjusted” to local conditions in such a way that the original goals or targets were lost. The Social Safety Net (JPS) program for example, as the poverty alleviation program to minimize the negative impact of *krismon*, even if it was evaluated to have failed, yet it was considered as “successful” in disbursing and channeling funds to the people in the regions. In other words if the fund is disbursed 100 percent, the program must be considered successful without the need to ask whether or not poverty in certain region has been reduced. For example, the Rice-OPK program even if in the beginning it created a lot of confusion because the disagreements of poverty data in the regions, yet finally the cheap subsidized rice programs can be implemented “smoothly” although it was generally recognized that a large portion ended up being received by the non-poor.

The PDMDKE project (revolving credit program) was the least successful one, because it was reported to “continue” the IDT program, but can not avoid making distinction between the “new poor” as a result of *the krismon*, and the “old poor” that have previously received the IDT fund. This distinction between the old and the new poor was of course confusing because it then assumed that the previous IDT program has succeeded to abolish poverty everywhere. The PDMDKE project not intentionally destroys the administrative system

carefully built up by 123,000 community groups (*Pokmas* IDT) in the whole country.

The SSN program on health and education (scholarship) has been well reported in the sense that corruption is very small although there are reports of the non-poor receiving the fund. The IFLS 2+ and IFLS 3 reported that the *Posyandu* visitors declined and that of the private hospitals and private clinic increasing. The family expenditure on health was reported to decline, but health condition of the family was not seriously deteriorating or even improving in some regions.¹

The SSN scholarship has been reported to reach all schools but poor children are no more likely to receive this scholarship than the non-poor children. The program was designed to target students not the general child population. In Indonesia the role of parents and communities to help fund the school finance is very important that a financial crisis of 1998 did not seriously influence negatively the school finance situation.

The experience of the IDT program indicated very clearly that community participation is a *conditio sine qua non* in poverty alleviation program. It is indeed emphasized in the beginning of the program that the program must be *transferred* as quickly as possible to become a *community movement*, organized and managed by the community themselves for its sustainability. The IDT program is a program to empower *ekonomi rakyat*, which with the help of revolving fund granted by the government able to move and dinamize the village economy.

SUMMARY AND CONCLUSION

Poverty in Indonesia is *not more severe* than in other developing countries. However it looked more difficult to solve because the government and the general public never

¹ UGM-RAND, Indonesian Living Standards Three Years After the Crisis: Evidence from The Indonesia Family Life Survey, Executive Summary, 2002:17

consider it to be a very serious problem requiring top priorities in national development programs.

The economists who have been promoted as the “elite in national economic development” during the New Order Era have the strong view that poverty can be solved automatically via economic growth. Thus after the financial crisis of 1997-98 they argue repeatedly that economic growth must be recovered to the pre-crisis level (7 percent annually) and poverty will be reduced automatically.

This trickle down strategy of economic development, even if it has failed to materialize during the 3 decades of economic development, still believed to be true and will take place, and thus there is, according to them, no need to shift the strategy into poverty-oriented strategy. Even after the Bali blast on October 12, now these orthodox economists are busy debating what is the “reasonable” growth rate for 2003, whether it will be 4-5 percent or 2-3 percent. If at present economists prefer to use their time and energy to talk about the feasible growth rate, not about how to unravel the real causes of the blast, we will never succeed to reduce poverty in Indonesia. The economists still rely too much on orthodox macroeconomic policies especially the monetary policies with the IMF advice.

Another implication of the application of the orthodox economic development strategy in universities and schools is the fact that economics in Indonesia has been studied and taught only *deductively*. The professors in the universities and economics teachers in high school are all preaching economics as a universal science almost as if a religion. They must beware the following warnings.

Economic science has produced mostly “universal” intellectuals. I think it is time for economists to start transforming themselves – and to do it fast – into more “specific”, humble intellectuals (Alejandro

Sanz de Santamaria in Ekins and Max-Neef, 1992:20).

The false preachings of economics of the modern era bore a large responsibility for the breakdown of the family, the crime, the indifference to suffering, the assault on the natural environment, and other grave failings of the world of the late 20th century. (Nelson, 2001:321)

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APPENDIX

Table 1. Poverty Figures (head count) in 13 provinces surveyed

No	Province	Urban		Rural		Difference 1997-2000	
		1997	2000	1997	2000	Urban	Rural
1.	North Sumatera	5,3	6,3	24,1	19,7	1,0	-4,4
2.	West Sumatera	-	-	10,6	10,8	-	0,2
3.	South Sumatera	-	-	37,7	23,3	-	-14,4
4.	Lampung	-	-	28,2	18,9	-	-9,3
5.	Jakarta Cap. Ter.	6,0	6,6	-	-	0,6	-
6.	West Java	13,8	13,5	14,0	18,6	-0,3	4,6
7.	Central Java	20,4	14,3	13,7	17,1	-5,9	3,4
8.	Jogyakarta S.R	11,3	11,3	12,9	14,7	0	1,8
9.	East Java	21,2	13,5	24,5	20,2	-7,7	-4,3
10.	Bali	-	-	22,2	15,6	-	-6,6
11.	West Nusatenggara	-	-	19,0	30,9	-	11,9
12.	South Kalimantan	-	-	18,0	10,6	-	-7,4
13.	South Sulawesi	21,4	15,9	34,0	24,7	-5,5	-9,3
	Overall	13,3	11,6	20,1	18,7	-1,7	-1,4

Source : UGM-RAND, *Indonesian Living Standards Three Years After The Crisis: Evidence From The Indonesia Family Life Survey*, Final Report, August 2002

Table 2. Poverty Line and Population in Poverty in Indonesia 1976 – 1999

Year	Poverty Line		Population in Poverty (percent)				Total Population in Poverty (million)			
	(Percapita/Rp/month)		Urban	Rural	Total	Change (%)	Urban	Rural	Total	Change (%)
	Urban	Rural								
1976	4.552	2.849	30.8	40.4	40.1	-	10.0	44.2	54.2	-
1978	4.969	2.981	30.8	33.4	33.3	-6.8	8.3	38.9	47.2	-7,0
1980	6.831	4.449	29.0	28.4	28.6	-4.7	9.5	32.8	42.3	-4.9
1981	9.777	5.877	28.1	26.5	26.9	-1.7	9.3	31.3	40.6	-1.7
1984	13.730	7.746	23.1	21.2	21.6	-5.2	9.3	25.7	35	5.6
1987	17.381	10.294	20.1	16.1	17.4	-4.2	9.7	20.3	30	5.0
1990	20.614	13.295	16.8	14.3	15.1	-2.3	9.4	17.8	27.2	-2.8
1993	27.905	18.244	13.4	13.8	13.7	-1.4	8.7	17.2	25.9	-1.3
1996	38.246	27.413	9.7	12.3	11.3	-2.3	7.2	15.3	22.5	-3.4
1996a	42.032	31.366	13.6	19.9	17.7	-	9.6	24.9	34.5	-
Dec-98	96.959	72.78	21.9	25.7	24.2	6.5	17.6	31.9	49.5	15.0
Feb. 1999	92.409	74.272	19.5	26.1	23.5	-0.7	15.7	32.7	48.4	-1.1
			(19.4)	(26.0)	(23.4)		(15.6)	(32.4)	(48,0)	
Ags. 1999	89.845	69.42	15.1	20.2	18.2	-5.3	12.4	25.1	37.5	-10.9
			(15.0)	(20.0)	(18.0)		(12.3)	(24.8)	(37,1)	
2000					19.0				37.3	
2001					18.4				37.1	
2002			14.3	20.5	17.9					

Source: CSA (BPS), 2000

Table 3: Human Development Index, 1996 - 1999

Province	Life Expectancy Index		Education Index		Purchasing Power Index		Human Development Index		Ranking	
	1996	1999	1996	1999	1996	1999	1996	1999	1996	1999
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Aceh Special Region	69,0	71,0	75,5	78,1	63,6	34,3	69,4	61,1	9	9
North Sumatera	67,8	70,2	79,7	81,5	64,0	34,7	70,5	62,1	7	7
West Sumatera	64,7	67,5	76,5	79,6	66,4	38,2	69,2	61,8	11	8
Riau	69,8	71,3	77,5	80,0	64,4	37,1	70,6	62,8	6	5
Jambi	67,5	69,3	75,5	77,5	64,8	35,7	69,3	60,8	10	11
South Sumatera	65,2	67,5	73,8	77,0	65,0	28,9	68,0	57,8	15	20
Bengkulu	64,7	67,0	75,6	77,3	64,9	33,6	68,4	59,3	12	16
Lampung	65,8	68,2	73,0	75,3	63,9	34,9	67,6	59,4	16	15
Capital Territory of Jakarta	75,3	76,8	85,6	86,8	67,4	43,6	76,1	69,1	1	1
West Java	63,2	65,5	73,9	76,5	67,4	40,3	68,2	60,8	13	11
Central Java	66,3	72,2	66,5	69,9	68,1	40,3	67,0	60,8	17	11
S R Yogyakarta	74,8	76,5	68,5	74,5	72,2	45,1	71,8	65,4	2	2
East Java	64,7	67,5	63,9	67,4	68,0	40,0	65,5	58,3	22	18
Bali	71,8	74,2	67,0	70,3	71,4	42,2	70,1	62,2	8	6
West Nusa Tenggara	49,8	54,7	55,6	60,2	64,6	32,2	56,7	46,0	26	26
East Nusa Tenggara	62,0	64,3	64,2	66,8	56,5	31,8	60,9	54,3	24	24
West Kalimantan	63,2	65,2	65,1	67,9	62,6	31,1	63,6	54,7	23	23
Central Kalimantan	72,2	73,7	77,2	78,9	64,5	28,5	71,3	60,4	5	14
South Kalimantan	58,8	60,0	73,8	76,4	66,3	37,7	66,3	58,0	19	19
East Kalimantan	71,8	73,3	76,2	79,7	66,1	38,8	71,4	63,9	4	3
North Sulawesi	69,3	69,3	80,8	81,6	65,3	37,6	71,8	63,7	2	4
Central Sulawesi	59,3	62,8	74,8	77,3	65,0	27,1	66,4	55,7	18	22
South Sulawesi	66,7	72,2	66,5	69,9	64,8	34,2	66,0	58,8	21	17
Southeast Sulawesi	64,3	66,7	72,2	73,2	62,1	30,0	66,2	56,6	20	21
Maluku	63,5	70,7	77,8	80,8	63,2	31,5	68,2	61,0	13	10
Irian Jaya	62,8	65,8	56,1	59,9	61,7	31,3	60,2	52,3	25	25
Indonesia	66,7	68,6	72,0	74,8	65,2	35,4	69,0	59,6		

Source: UNDP – UNSFIR, 2000