Globalisation and Poverty: 
Indonesia in the Twentieth Century

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Abstract

Discussing Indonesia as a case-study for examining the impact of globalisation on poverty, this paper is elaborating the historical background of Indonesia's development and welfare since 1900. This rare discussions include the impact of Dutch's colonialism and 1930s depression on Indonesia's welfare. There is also analysis on the expulsion of most Dutch nationals from Indonesia in the late 1950s and the nationalisation of Dutch enterprises, together with greater controls on Chinese businesses.

Regarding poverty eradication during Soeharto's era, the author mentions that while the government continued to claim falls in the incidence of poverty, the official poverty line was declining relative to average per capita expenditures, and that a more realistic poverty line would show both a higher incidence of poverty, and a smaller decline. This paper also criticizes the way Central Board of Statistics defining the poverty line in these current years. It is revealed by the author that the lessons of the last three decades of the 20th century were that faster growth based on increasing links with the global economy reduces poverty, but also increases vulnerability to shocks, originating from domestic as well as international sources.

Keywords: globalization, poverty, welfare

JEL Classification: F15, I32, I38

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1. INDONESIA AS A CASE STUDY

Indonesia, like most of Southeast Asia, is an important case-study for examining the impact of globalisation on growth and poverty over the twentieth century. Over the latter part of the nineteenth and early twentieth centuries, Southeast Asian economic links with the world economy grew rapidly. From 1830 to 1937, exports from Southeast Asia as a whole jumped from less than ten per cent of total Asian exports (excluding Japan) to 37 per cent. By 1938, Southeast Asia accounted for more than half of all foreign investment in Asia (Booth 2004: Tables 2 and 6). Indonesia, as the largest country in the region in terms of population accounted for a significant share of both the increase in exports and the increase in foreign investment. Indeed, the estimates prepared by Lewis (1969) showed that by 1937, Indonesia accounted for almost eleven per cent of total exports from the entire tropical world (Table 1). In addition, there was also substantial in-migration from Asia and the Middle East to Indonesia in the decades from 1850 to 1930, although as a percentage of the total population, the foreign, and especially the Chinese, population was smaller than in British Malaya or in Thailand.

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesian Exports</th>
<th>Total Exports</th>
<th>Percentage from Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1883</td>
<td>80</td>
<td>1,020</td>
<td>7.8</td>
</tr>
<tr>
<td>1899</td>
<td>101</td>
<td>1,274</td>
<td>7.9</td>
</tr>
<tr>
<td>1913</td>
<td>249</td>
<td>2,769</td>
<td>9.0</td>
</tr>
<tr>
<td>1929</td>
<td>582</td>
<td>5,462</td>
<td>10.7</td>
</tr>
<tr>
<td>1937</td>
<td>548</td>
<td>5,011</td>
<td>10.9</td>
</tr>
<tr>
<td>1955</td>
<td>940</td>
<td>16,822</td>
<td>5.6</td>
</tr>
<tr>
<td>1965</td>
<td>725</td>
<td>23,735</td>
<td>3.1</td>
</tr>
</tbody>
</table>

*) Tropical world defined as all the countries lying between 30 degrees north of the equator and 30 degrees south. China, Japan and Korea are excluded, as are all of North Africa and the Middle East except Egypt. Also excluded are South Africa, Chile, Uruguay and Argentina.

Source: Lewis (1969: Table 9)
But in common with many other parts of Asia in the post-1945 era, the newly independent government of Indonesia was very wary of using foreign trade and investment, let alone international migration, as tools for promoting growth and improving living standards. The argument used by the economic nationalists after independence was simple; if increased involvement with the world economy had failed to improve the living standards for the great majority of the indigenous population during the Dutch colonial era, why should it after 1950? Surely the responsibility of the newly independent government was to use the nation’s resources directly for the benefit of Indonesians? Among many post-independence policy-makers, attitudes to the role of both foreign trade and investment in promoting economic growth, let alone greater equity, remained at best uncomprehending, at worst actively hostile, until the late 1960s¹. It was only after the change of regime in 1966 that there was a change in policy which lead to more open economic policies. While these policies did lead to an increase in growth of GDP, their impact on the welfare of the poorer groups in the population was unclear for over a decade. After 1980, a tentative consensus emerged about the effects of economic growth on welfare, but this consensus was shattered by the catastrophic growth collapse of 1997/98. This in turn triggered another debate about the benefits and costs of open economic policies in Indonesia.

2. THE FIRST PHASE OF GROWTH: 1900-1930

It is now widely agreed that Indonesia experienced two periods of sustained per capita growth in gross domestic product (GDP) during the twentieth century, both of around three decades in duration. The first was from 1900 to 1929, when per capita GDP growth was around 1.7 per cent per annum, a reasonable rate for the period, although almost certainly slower than in British Malaya and the Philippines². This period was characterized by export volume growth of almost six per cent per annum, and growth in real government expenditures of over four per cent per annum (Booth 1998: 18). The growth in public expenditures was linked to the so-called ethical policy which was inaugurated in 1901, with the aim of improving living standards of the indigenous population of Java. Irrigation, education, public health, reforestation and rural credit were of course exceptions, such as Sjafruddin Prawiranegara, who served as a minister in the cabinets of Hatta and Natsir, and who became Governor of Bank Indonesia after it was nationalized. While sympathizing with many of the aims of the economic nationalists, he considered both foreign trade and foreign investment essential to Indonesia’s economic growth.

¹ Hooley (2005) has estimated that per capita GDP grew at around 2.6 per cent per annum in the Philippines between 1902 and 1929, although the figure for 1902 was depressed through the impact of the American occupation.
programs all received increased government funding in the first two decades of the new century. In addition growing concern over population pressure in rural Java led to government to adopt ambitious schemes for agricultural resettlement in Sumatra and Sulawesi (Celebes). As Wertheim (1964: 213) argued,

To the contemporaries the new policy, which propagated a kind of ‘welfare state’, seemed radical, and to a certain extent even revolutionary. It was inaugurated in the Netherlands, not as a bone of contention in the party political strife, but as a common program of parties politically rather different from each other. It was formulated in terms of a new era to be introduced in the Eastern colony and in subsequent years fulfilled with a measure of energy and consistency.

What were the results of this bold experiment in colonial welfarism? By 1920, central government expenditures per capita in Indonesia were around seven dollars per capita, which was higher than in most other Asian colonies, except British Malaya, and Taiwan (Booth 2007: Table 4.4). More important, expenditures on public works accounted for almost forty per cent of total expenditures by 1921, and education and health expenditures for a further five per cent. These increased expenditures permitted a considerable expansion in agricultural research and extension activities, as well as a substantial improvement in irrigation facilities, and expanded public health services including pioneering preventive programs aimed at reducing deaths from the plague, cholera, hookworm and malaria (Boomgaard 1986). Last, but by no means least, a network of credit institutions including banks and pawnshops was established in Java to serve the rural population. These were innovative for the time, and attracted the attention of a number of foreign experts from both the British and French colonial services.

But after 1920, official Dutch enthusiasm for the ethical policy began to wane. One reason was budgetary; by the early 1920s, there was less tolerance on the part of conservative elements in the Netherlands for policies which had led to large deficits in the colonial budget, and increases in government borrowing\(^3\). Although both export volume and real GDP continued to grow until the end of the 1920s, export prices began to fall, and there was less confidence in the colonial establishment that the buoyant economic conditions of earlier decades could be sustained. Furthermore, far from showing appreciation for colonial initiatives, the indigenous population was displaying more restiveness. The various nationalist movements which gathered support in the first

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\(^3\) By 1920, debt service expenditures amounted to around six per cent of exports; a much higher ratio than in 1911, although the ratio increased in the 1930s (Booth 1998: 146).

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decades of the 20th century were influenced by a mix of religious, political and economic motives. By the mid-1920s, several organisations inspired by both nationalistic and communist ideologies had begun to attract widespread support from the indigenous population. In 1927, the members of the Bandung Study Club, chaired by a charismatic young engineering student called Soekarno, formed the Indonesian Nationalist Party, which soon attracted a strong following (Kahin 1952: 90-2). The Dutch community in the Indies became very alarmed at the strident rhetoric of the young nationalists, and two years later the party was banned and its leaders arrested.

It is difficult to assess what effects the welfare policies of the first three decades of the twentieth century had on living standards, as reliable economic and demographic data from the latter part of the nineteenth century are limited. After 1905, there was probably some improvement in rice availability per capita, although the series compiled by Scheltema showed that by 1915, it had only recovered to the level achieved in 1885, and after 1915, it fell steadily until 1930 (Booth 1998: 95). The increased expenditures on irrigation certainly led to increased cropping ratios, which in turn led to growth in the production of non-rice food crops. Van der Eng (1993: Figure 4) has shown that there was a substantial improvement in per capita calorie supply in Java and Madura between the 1890s and 1920, although there was some decline thereafter until the 1930s.

Although the increase in irrigated land in Java led to more intensive cropping, there was little change in rice yields per hectare in Java as a whole, although there may have been some increases in yields in the well-irrigated regions. While Dutch scientists made some progress in breeding new rice varieties, they failed to achieve the yields breakthrough which the Japanese achieved in Taiwan (Barker, Herdt and Rose 1985: 54-8). That breakthrough came only in the 1960s. The rather bleak assessment of Boeke (1927: 296) that "the population of Java has reacted to all these welfare policies in only one clear way: by growing in size like a flash flood", may have been too pessimistic, but there was by the mid-1920s little evidence of any dramatic improvement in economic conditions for the great mass of the population in Java. Boeke in his 1927

\footnote{Total agricultural growth in Burma, Siam, and Indonesia was in fact only slightly slower than in Taiwan and Korea between 1913 and 1930. But growth over the 1930s was much faster in the two Japanese colonies. See Booth (2007: Table 2.5).}

\footnote{It is perhaps worth noting that population growth in the Netherlands between 1850 and 1900 was around 1.6 per cent per annum which was higher than the estimate for Java between 1900 and 1930 of around 1.4 per cent per annum. Boeke's comment was probably based on the fact that while population growth was slowing in the Netherlands in the early 20th century, it was probably accelerating in Java.
address argued that the only way forward would be for government policies to focus on a small elite of entrepreneurial farmers who would over time adopt new agricultural technologies and thus draw the majority up with them. Some critics of the ethical programs argued that in fact this was what had been achieved; most of the expenditures on agricultural extension, rice policy, irrigation, credit facilities and cooperatives had only reached a small proportion of the better-off farmers (Boomgaard 1986: 79).

3. THE IMPACT OF THE 1930s DEPRESSION

By the late 1920s, Indonesian exports accounted for over 16 per cent of Asian exports, excluding Japan (Booth 1998: 205). Indonesia was also the largest recipient of foreign investment in Southeast Asia (Lindblad 1998: 14). The open nature of the economy made it vulnerable to economic fluctuations in the core industrial economies, especially the USA, which was an important trading partner. The main channel through which the problems in the industrial economies in the early 1930s were transmitted to Indonesia was the price of key export staples. But in addition, as protectionism became more pervasive in the early 1930s, some producers found that they could no longer sell into markets where access was being restricted by quotas and other trade barriers. The Java sugar industry was especially badly hit in this regard because the Netherlands (unlike Britain and France) did not control extensive colonial possessions in other parts of the world, and the domestic Dutch market for tropical products was quite small. Thus Javanese sugar producers lost markets in British colonies after the policy of imperial preference was introduced which they could not replace, either in the Netherlands or elsewhere. There was no alternative to drastic cuts in sugar production, and employment. By the latter part of the 1930s, exports from Java were only slightly higher than those from Taiwan (mainly to Japan), and from the Philippines (mainly to the USA), whereas ten years earlier Javanese exports had been much greater than from Taiwan and the Philippines (Booth 2007: Table 3.8).

Per capita GDP contracted sharply after 1929, and by 1934 was less than 86 per cent of the 1929 level (Table 2). The negative implications of this contraction for living standards were considerable, although the impact of the growth collapse was felt differently in different parts of the archipelago. Broadly speaking, workers fortunate enough to have secure wage employment in the government sector and in those parts of the private sector which were not directly affected by the contraction of exports, did not suffer severe income loss, and may even have benefited from falling prices. But the millions of workers who had employment in the export sector, or who depended on the production and sale of export
crops for at least part of their income bore the brunt of the adjustment. The worst years for declining living standards appear to have been from 1933 to 1935, when the trough of the slump was reached, and when declining incomes and employment opportunities coincided with poor weather conditions and bad harvests (Boomgaard 2000: 46).

Table 2
Index of Trends in Real Per Capita GDP Growth, 1928-37 and 1996-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>98.5</td>
<td>1996</td>
<td>95.0</td>
</tr>
<tr>
<td>1929</td>
<td>100.0</td>
<td>1997</td>
<td>100.0</td>
</tr>
<tr>
<td>1930</td>
<td>99.5</td>
<td>1998</td>
<td>85.7</td>
</tr>
<tr>
<td>1931</td>
<td>90.6</td>
<td>1999</td>
<td>84.5</td>
</tr>
<tr>
<td>1932</td>
<td>88.3</td>
<td>2000</td>
<td>87.7</td>
</tr>
<tr>
<td>1933</td>
<td>86.5</td>
<td>2001</td>
<td>89.9</td>
</tr>
<tr>
<td>1934</td>
<td>85.7</td>
<td>2002</td>
<td>92.8</td>
</tr>
<tr>
<td>1935</td>
<td>87.4</td>
<td>2003</td>
<td>95.9</td>
</tr>
<tr>
<td>1936</td>
<td>92.4</td>
<td>2004</td>
<td>99.4</td>
</tr>
<tr>
<td>1937</td>
<td>100.0</td>
<td>2005</td>
<td>103.7</td>
</tr>
</tbody>
</table>


By the end of the 1930s, several indicators of popular welfare were lower in Indonesia than in most other colonies in East and Southeast Asia. Although both income and demographic data are less reliable for this period than later in the twentieth century, there is little doubt that Indonesia was at the lower end of the rankings for per capita GDP, infant mortality rates and crude death rates, while educational enrollments were lower, relative to population, than anywhere else in the region, with the probable exception of French Indochina (Table 3). It was true that Java's infrastructure was more developed than in most other parts of Asia; for example both road and rail networks were denser relative to area than in other parts of Southeast Asia, or in Taiwan. But in spite of

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6 The proportion of arable land irrigated in Java at the end of the 1930s was lower than in either Taiwan or Korea, but Java had a denser road network than either of the Japanese colonies. The rail network (kilometers of track per square mile of territory) was about the same as in Taiwan, and higher than in Korea. See Booth (2007: 80).
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this, the legacy which the Dutch bequeathed to an independent Indonesia was one of low income, and retarded human development.

This may seem a bleak assessment of the Dutch colonial legacy, especially given the fact that per capita GDP was growing from 1900 to 1930, and that, at least during the years from 1900 to 1920 there was a serious attempt to build modern infrastructure, and, to a lesser extent, improve access to health and education. But the conservative nature of the Dutch colonial establishment, together with the sustained outflow of capital on private account meant that resources available to the government were inadequate, and the bold ambitions of the ethical policy were only very partially realized.

Table 3
Development Indicators: East and Southeast Asia, late 1930s

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita GDP, 1938 (1990 international dollars)</th>
<th>Infant mortality rates</th>
<th>Crude death rates</th>
<th>Educational enrolments as % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>1,522</td>
<td>139</td>
<td>23</td>
<td>11.5</td>
</tr>
<tr>
<td>Korea</td>
<td>1,459</td>
<td>na</td>
<td>23</td>
<td>5.8</td>
</tr>
<tr>
<td>British Malayaa</td>
<td>1,361</td>
<td>147</td>
<td>21</td>
<td>7.8</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1,302</td>
<td>142</td>
<td>21</td>
<td>11.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,175</td>
<td>225-250</td>
<td>28</td>
<td>4.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>826</td>
<td>na</td>
<td>22</td>
<td>10.7</td>
</tr>
<tr>
<td>Burma</td>
<td>749</td>
<td>232</td>
<td>30</td>
<td>5.4</td>
</tr>
<tr>
<td>Indochina</td>
<td>na</td>
<td>190</td>
<td>24</td>
<td>2.5</td>
</tr>
</tbody>
</table>

a. GDP and crude death rate data refer to the area covered by the modern state of Malaysia, and exclude Singapore. Infant mortality rates refer to the Federated Malay States only. Educational enrolments refer to British Malaya including Singapore.

Sources: Booth (2007: table 7.4)

7 A good overview of public works projects carried out in Indonesian between 1800 and 1942 is given in Ravesteijn and Kop (2008).
4. INDEPENDENCE AND AFTER: 1950-66

The 1940s were a catastrophic decade for Indonesia, as for most other parts of South East Asia. The Japanese occupation was initially welcomed by many Indonesians, but increasingly the Japanese resorted to more coercive methods to extract both food and labour from the local population. By 1944 there was widespread hunger and the death rate began to surge. While it will never be certain how many Indonesians met a premature death in the last phase of the Japanese occupation, a figure of at least two million seems plausible. The Japanese occupation, the defeat of the Japanese by the allied powers, the return of the Dutch colonial regime and the prolonged struggle for independence from 1945 to 1949 together resulted in a decline in per capita GDP of around 30 per cent between 1941 and 1951 (van der Eng 2002: 173).

Independence was finally granted in late 1949, on terms which were hardly favourable to the infant republic. The Financial-Economic Agreement (Finec) “guaranteed that Dutch firms could enjoy business as usual, including the remittance of profits” (Dick et al. 2002: 171; see also Lindblad 2008: 72-74). In addition the new government had to take over the debt of the colonial government, amounting to more than one billion dollars. Many nationalists found these terms humiliating; certainly they were far tougher than the terms under which the British and the Americans had conceded independence to India and to the Philippines. On the plus side, the new republic enjoyed a terms of trade improvement because of the Korean War boom, and there was reasonably rapid growth until 1957. But the decade from 1957 to 1967 saw slower, and more erratic economic growth. As population was growing over this period at a faster rate than in the colonial era, per capita GDP in 1967 was, according to the estimates of van der Eng (2002: 173), still well below the level reached in 1940.

While the leaders who assumed power after 1949 were hardly unanimous in wanting Indonesia to de-link from the world economy, economic nationalism was strong. The view was widely held that more than a century of integration into the world economy under Dutch colonialism had brought few benefits to the Indonesian people, even compared to other Asian colonies such as the Philippines, British Malaya or Taiwan. There was a steady drift to what Myint (1967) called inward-looking policies, which discouraged foreign investment, and led to a gradual loss of government control over the foreign trade sector. As the exchange rate remained pegged to the dollar, it became increasingly overvalued in real terms, which made exporting through legal channels unprofitable. By 1965, the official figures showed a steep decline in export earnings compared with a decade earlier, and Indonesia’s share of tropical trade has declined to only three per cent (Table 1).
The true value of exports in the 1960s was certainly much higher as many export crops such as rubber and copra were smuggled to markets in neighbouring Malaysia, Singapore and the Philippines. In fact by the mid-1960s several of the export-producing regions outside Java had virtually seceded from the Indonesian economy. The problem was not so much that Indonesia was de-linking from the world economy as that the export producing regions were de-linking from Java. This had a negative effect on budgetary revenues, as a large part were derived from taxes on trade. In addition, the Soekarno government embarked on expensive military campaigns against the Dutch in West Irian, and against the newly created Malaysian Federation. Budget deficits grew, and by the early 1960s, the Indonesian government seemed trapped in a vicious spiral of inflation leading to poor revenue performance leading to higher deficits and thus to further inflation from which it seemed impossible to break free (Booth 1998: 166).

The effect of the accelerating inflation was most severe on wage workers; real wages of plantation workers, for example, fell sharply in both Java and Sumatra from the mid-1950s onwards and only began to recover after prices were stabilised in the late 1960s (Papanek 1980: Table 4.3). Farmers who produced enough to feed their households were to some extent protected against rising prices, and those with surpluses to sell were probably able to maintain a reasonable standard of living. But the great majority of the rural population in Java and not inconsiderable numbers elsewhere were not in these favoured categories. Those households with little or no agricultural land, who were dependent on wage labour for at least part of their incomes suffered under the inflation, as did most urban workers, including many civil servants. While consumption standards of the latter were protected to some extent by their rice allowance, the real value of their incomes fell steadily, encouraging more corruption and moonlighting.

After Soekarno ushered in “Guided Democracy” at the end of the 1950s, the official rhetoric began to emphasize “Indonesian socialism”, although it was far from clear what this meant. Mackie (1964: 44) argued that for many Indonesian socialism meant breaking the grip of foreign capital, mainly Dutch and Chinese, over plantation agriculture and the industrial and modern service sectors. For others it implied an emphasis on the rejection of individualism and private self-interest in favour of the ‘family principle’ of economic organization which was enshrined in the

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8 Pitt (1991: 76-77) argued that the real resource costs of smuggling from Indonesia in the 1950s and 1960s were probably quite small, as most of it took place through the same ports and ships as ‘legal trade’. The main technique used was mis-invoicing of legally declared trade. Bribes were of course paid but these were often quite small relative to the value of cargoes and should be regarded as transfer payments.

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1945 constitution. The expulsion of most Dutch nationals from Indonesia in the late 1950s and the nationalisation of Dutch enterprises, together with greater controls on Chinese businesses, were popular policies with most Indonesians, but there is little evidence that they benefited the poor, most of whom lived in rural areas and eked out precarious livings as small farmers or farm labourers. The main beneficiaries were the civil servants and military officers who were given often quite lucrative jobs in the new state enterprises.

The only redistributive policy which probably did help the poor during the Guided Democracy period, was the land reform program which led to the redistribution of around one million hectares to landless families between 1961 and 1968. In addition the agrarian legislation gave legal tenure rights to those who had been squatting on land formerly controlled by the estates (Booth 1998: 123). But in the more densely settled parts of the country there was little “surplus” land to redistribute, and large numbers of potential claimants. By the mid-1960s when the first rounds of the National Socio-economic Survey were published, it was clear that in the densely settled rural areas of the country, especially Central Java, Yogyakarta and East Java, the incidence of poverty was very high. More than half the rural population in these provinces fell below a very modest poverty line, set in terms of cereals (Booth 1988: 126). In Kalimantan and parts of Sumatra the situation was rather better, but elsewhere the incidence of rural poverty ranged between 25 and 45 per cent. The poverty problem was little better in urban areas.

In spite of the increasingly chaotic economic situation in the early 1960s, some progress was made in health and education. Nitisastro (1970: Table 39) has estimated that crude death rates in Java rose sharply in the 1940s, but fell back again after 1950, and by 1955-60 they were slightly lower than in the late 1930s. The 1961 Population Census, which was the first since 1930, showed that almost 55 per cent of children in the 7-12 age group were in school in the country as a whole; in Sumatra the figure was 60 per cent (Nitisastro 1970; Table 71). This was certainly higher than in the late colonial period. But the quality of the education was often poor; teachers were often not well trained and buildings and equipment were inadequate. Education almost always involved the family in some monetary payments, and it is likely that many millions of children from poor families were excluded from the education system altogether.

Nugroho (1967: 143-44) quotes an analysis of the 1961 Population Census data which showed that over half those between ten and twenty had attended at least primary school, but the percentage fell off steeply for those in the older age groups which indicates that school attendance did improve after 1945.
5. THE SOEHARTO DECADES: THE TRIUMPH OF TRICKLE DOWN?

In March 1966, President Soekarno was ejected from effective power. The immediate challenge facing the new government, headed by General Soeharto, and especially its economics team, was to reduce inflation, and increase production both for the home market and for export. Inflation was reduced to single figures by 1969, and the first five year plan (1969-1974) gave top priority to boosting agricultural output through accelerated use of higher yielding varieties, increased fertiliser use and improved irrigation. With World Bank assistance, an ambitious program to rehabilitate and extend the irrigation network on Java was implemented. New schemes for developing irrigation outside Java were also drawn up and in some cases linked to agricultural resettlement from Java, Bali and parts of Eastern Indonesia to supposedly "empty" lands in Sumatra, Sulawesi and Kalimantan. A labour-intensive public works program was also set up, under which district governments were allocated grants from the central budget in order to carry out roadbuilding, irrigation and other projects. After the first oil shock in 1973/74 further boosted central government revenues, grants to both provinces and districts to build schools and health clinics were increased. A rice intensification program was begun, which provided credit to rice farmers to buy fertiliser and other inputs.

To some observers, the emphasis on irrigation, rural credit, infrastructure development, transmigration and even education, together with a top-down political and administrative structure which tolerated little dissent, was reminiscent of Dutch policies in the ethical era (Willner 1981; Anderson 1983). Critics pointed out that, by the mid-1970s, there was little sign that the long decline in rural living standards, which had been going on since the 1930s, was being reversed. Real wages were still falling and it was feared that the expectation of life might also be in decline (Feith 1974). As in the colonial period, Soeharto's policies were apparently aimed at improving the incomes of the better off groups in rural society, and especially those with access to irrigated rice land. The rest of rural society was expected to benefit from increased employment opportunities which greater agricultural output would bring, although by the mid-1970s the critics pointed to growing evidence that rice production was becoming less labour-intensive, and there was little evidence that employment opportunities were being created in non-agricultural activities such as small-scale manufacturing.

The Soeharto government was disturbed by these criticisms, especially when they were also taken up by influential donors such as the
World Bank\textsuperscript{10}. But it was unwilling, and perhaps also unable, to change its policies. In particular, there was little sympathy for any kind of redistributive policy. The land reform policies of the Soekarno era were set aside, and replaced by an expanded transmigration program; indeed by the end of the 1970s this was one of the main planks in New Order development policy and was for some years lavishly funded by the World Bank, and other donors. Transmigration was viewed both as a means of alleviating rural poverty in Java, Bali and some parts of eastern Indonesia while at the same time developing those parts of Sumatra, Sulawesi, Kalimantan and Irian Jaya (now Papua) whose agricultural potential was considered to have been held back by low population densities. During the Repelita 3 period (1979-84) it was claimed that 366,000 families were moved under the government program, while a further 169,000 households moved unassisted by government funds (Hardjono 1986: Table 1).

The impact of the transmigrant program on the welfare of migrant families, and on the receiving regions became a matter for considerable controversy over the 1980s, both in Indonesia and abroad. A survey carried out by the Central Bureau of Statistics (CBS) in the mid-1980s led the World Bank to conclude that transmigrants were “neither as well off as advocates of transmigration would wish nor as poor as detractors claim” (World Bank 1988: 40). About twenty per cent of all migrant families fell below subsistence levels; there appeared to be particular problems with the tidal swamp sites where almost 40 per cent of migrant households were below the subsistence threshold. The CBS survey found that most households relied on off-farm work, much of it from developing land and infrastructure. As funding for site development diminished, there was a fear that many families would not be able to exist from agricultural and off-farm work alone. The World Bank admitted that there was serious concern that many sites would not be viable in the longer term, especially if soil quality was poor and soil fertility declined quickly. (World Bank 1988; see also Hardjono 1986). During Repelita 4, government funding for the transmigration program was cut back, and the World Bank also ceased funding site development by the end of the 1980s.

In spite of these and other controversies about the impact of Soeharto development policies on the poor, there was by the early 1980s mounting evidence that the lower income groups in both urban and rural areas were beginning to enjoy some benefits from more than a decade of

\textsuperscript{10} There was particular concern about the impact of the sharp increase in food prices of 1972/73 on poorer groups. A subsequent analysis of the 1970 and 1976 socioeconomic surveys found that there had been an increase in rural poverty between 1970 and 1976 (Asra 1989).
accelerated economic growth. Perhaps the most important indicators related to trends in food consumption. Both rice production and imports increased steadily over the 1970s, and by 1983 per capita availability exceeded 140 kg, compared with around 104 kg in 1969 (Mears 1984: Table 2). By the mid-1980s, the government had largely met the goal of national rice self-sufficiency, in the sense that domestic production covered current consumption demands. While many agricultural economists thought that the focus on rice self-sufficiency was diverting government attention from more broadly based agricultural development policies, the achievements in the rice sector were widely applauded. The increase in rice availability was also accompanied by some increases in per capita availability of corn, fish and meat. These increases continued over the rest of the 1980s (Table 4).

Table 4
Food Consumption per Capita: 1971 and 1989
(Kg per capita per year)

<table>
<thead>
<tr>
<th></th>
<th>1971</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>105.7</td>
<td>140.8</td>
</tr>
<tr>
<td>Corn</td>
<td>23.7</td>
<td>28.7</td>
</tr>
<tr>
<td>Cassava</td>
<td>47.9</td>
<td>52.0</td>
</tr>
<tr>
<td>Sweet potatoes</td>
<td>16.7</td>
<td>11.0</td>
</tr>
<tr>
<td>Fish</td>
<td>7.8</td>
<td>12.6</td>
</tr>
<tr>
<td>Meat</td>
<td>2.5</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Sources: Food balance sheets compiled by the Central Bureau of Statistics

The National Socioeconomic Survey (usually known as SUSENAS) was conducted on a national basis after 1970; after 1981 it was carried out at three year intervals. Household expenditure data from this survey was used by the Central Bureau of Statistics to estimate the incidence of poverty (the proportion of the population under a stipulated poverty line). By 1984, it was estimated that 21.2 per cent of the rural population was under the poverty line, compared with over 40 per cent in 1976; for urban areas the estimates were 23.1 per cent and 38.8 per cent (Booth 2000: Table 3). While there were criticisms of the way the poverty line was estimated, few disputed that there had been a fall. Using a relative poverty line (50 per cent of average expenditures) there was a modest decline the incidence of poverty in rural areas in both Java and the outer islands between 1970 and 1980, although a slight increase in urban areas, especially on Java (Booth 2000: Table 5).
The evidence of a general improvement in living standards over the latter part of the 1970s and the 1980s was supported by data on infant mortality rates and school attendance (Table 5). The grants for building schools and health clinics were continued through the third and fourth plans, and by the end of the 1980s were clearly producing results. Infant mortality rates, which were well over 100 per thousand in the 1960s, had more than halved by the end of the 1980s. By 1986, the government was also claiming to have achieved universal primary schooling, in the sense that all children in the 7-12 age groups were in school. By the latter part of the 1980s, Indonesia was being hailed by the World Bank as a successful case of structural adjustment in the wake of a commodity boom which had not driven large numbers of people into poverty, and where social indicators had not deteriorated\(^{11}\).

Table 5

<table>
<thead>
<tr>
<th>Year</th>
<th>Infant Mortality(^a)</th>
<th>Total Fertility(^b)</th>
<th>School Enrollment(^c)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Urban</td>
</tr>
<tr>
<td>1967</td>
<td>158</td>
<td>134</td>
<td>5.16</td>
</tr>
<tr>
<td>1976</td>
<td>118</td>
<td>100</td>
<td>4.13</td>
</tr>
<tr>
<td>1986</td>
<td>79</td>
<td>64</td>
<td>2.69</td>
</tr>
<tr>
<td>1996</td>
<td>53</td>
<td>41</td>
<td>2.05</td>
</tr>
</tbody>
</table>

\(^a\) Deaths of infants under one year per 1000 live births
\(^b\) Live births per female aged 15-49; years refer to 1968, 1977, 1987 and 1997
\(^c\) Primary enrollments refer to proportion of children aged 7-12 attending school; lower secondary refer to all enrollments as a proportion of all children aged 13 to 15. Years are 1968, 1978/79, 1988/89 and 1996/97.


The sharp fall in fertility in Indonesia over the last three decades of the 20\(^{th}\) century led to a change in the age structure of the population. The dependency ratio (the proportion of the population under 15 and over 60 as a percentage of those aged 15 to 60) fell from 87 per cent in 1971 to 55 per cent in 2000, and is projected to fall further by 2010 (Central Board of Statistics 2008: Table 2.5). Like Thailand, Indonesia appears likely to reap a substantial “demographic dividend” in the first part of the 21\(^{st}\) century.

\(^{11}\) The study by Thorbecke (1992) found that the selective budget cuts of the mid-1980s protected the bulk of the population from sudden sharp falls in income.
although the full effect of the dividend will only be felt if productive employment can be generated for the millions of young people who will enter the labour force in coming decades\textsuperscript{12}.

The last decade of the Soeharto presidency saw a reorientation of policy priority towards the industrial sector as the main engine of economic growth and towards the private rather than the government sector as a source of investment resources (Booth 1994: Table 4). Agricultural growth slowed over the 1990s, compared with the 1970s and 1980s\textsuperscript{13}. The restructuring policies implemented in the aftermath of the oil boom led to a rapid increase in non-oil exports, especially from the manufacturing sector, and an increase in employment in manufacturing, construction and the modern service sectors. The heavy emphasis on government investment in rural and regional development, which had characterised the earlier plans, was reduced. By Repelita 5 (1989-94), sectors such as education and transport were given the highest priority in the government development budget (Booth 1989: Table 6). While the government continued to claim falls in the incidence of poverty, critics pointed to the fact that the official poverty line was declining relative to average per capita expenditures, and that a more realistic poverty line would show both a higher incidence of poverty, and a smaller decline. In addition the bunching of many households just above the official poverty line meant that a small increase could lead to a much higher headcount measure\textsuperscript{14}. In fact the proportion of the population spending less than half the average actually rose in both urban and rural areas between 1987 and 1996, and there was also an increase in expenditure disparities as measured by the Gini coefficient\textsuperscript{15}.

\textsuperscript{12} For a discussion of the demographic dividend see Lee and Mason (2006).

\textsuperscript{13} It has been argued that in Indonesia, as in other parts of Asia, poverty reduction was strongly related to growth in the agriculture and service sectors, and only very weakly related to growth in industry (Warr 2003: 185). This may be due to the capital-intensive nature of much of the industrial development in Indonesia in recent decades. For a discussion of agricultural productivity growth over the last four decades of the 20\textsuperscript{th} century, see Fuglie (2004).

\textsuperscript{14} Dhanani and Islam (2002: 1217) have argued that the Central Bureau of Statistics poverty line understates the non-food expenditures needed to acquire basic needs. Their amended poverty line for rural Indonesia in 1996 (which was in fact only 25 per cent higher than the revised CBS poverty line) gave a headcount measure of poverty in rural areas which was almost twice as high.

\textsuperscript{15} It is worth noting that both the official poverty estimates and other estimates by international organizations and independent scholars use the expenditure data from the SUSENAS. The estimates of inequality published by the CBS also use the expenditure data. It is in fact difficult to say much about changes in income distribution in Indonesia over the last four decades as household income surveys have only been held in urban areas.
Official discussion of poverty and inequality in the final part of the Soeharto era concentrated more on regional disparities, and especially on the high incidence of poverty in some provinces in Eastern Indonesia, including Maluku, Irian Jaya and East Timor. By 1993, inter-provincial variation in rural poverty was a function not just of holding size, but also of value added per hectare in smallholder agriculture, and the reliance of smallholder producers on food crops (Booth 2000: Table 11). The most important new initiative adopted in the 1990s to combat high rural poverty in the less developed parts of rural Indonesia was the subsidy program for remote villages (Inpres Desa Tertinggal) which emphasised credit to groups of villagers to promote the development of small enterprises in agriculture, trade and cottage industry. Various indicators were supposedly used to determine which villages received the subsidies, and there was criticism that the criteria were opaque, and the selection biased by political considerations. This program, like the other regional subsidy schemes, was terminated in 2001, when the new decentralisation laws were implemented.

The economic legacy of the Soeharto years will continue to cause debate and controversy for some time to come. There can be little doubt that, by most measures, incomes and material living standards of most Indonesians were higher in 1997 than at any time in the twentieth century. Most people were consuming more food and non-food items, were better educated and could expect to live longer. But disparities in consumption were considerable, by region and by social class. The rich were no longer just Europeans and migrants from other parts of Asia, together with a tiny number of Indonesians belonging to old feudal families. There were increasing numbers of wealthy Indonesians who in the eyes of some had gained their wealth by exploiting their links to the political elite, and by using official positions to syphon off public resources for their private use. At the same time, there was mounting evidence that many millions of Indonesians had been left behind in the race for higher living standards. The series of Social Accounting Matrices which were prepared by the Central Bureau of Statistics since the late 1970s showed that over the years from 1975 to 1995, incomes of agricultural labourer households and poor farmers had declined relative to the national average, especially between 1985 and 1995. Over this decade the position of both rural non-agricultural households and the urban rich improved, relative to the national average (Table 6).
Table 6: Disposable Income per Capita by Household Group as a Percentage of the National Average 1975-2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural labourers</td>
<td>52.1</td>
<td>58.0</td>
<td>30.2</td>
<td>47.8</td>
</tr>
<tr>
<td>Poor farmers</td>
<td>56.2</td>
<td>55.2</td>
<td>45.8</td>
<td>54.7</td>
</tr>
<tr>
<td>Medium farmers</td>
<td>74.7</td>
<td>82.6</td>
<td>58.9</td>
<td>82.1</td>
</tr>
<tr>
<td>Rich farmers</td>
<td>108.1</td>
<td>133.4</td>
<td>86.3</td>
<td>115.3</td>
</tr>
<tr>
<td>Rural non-agricultural (poor)</td>
<td>68.9</td>
<td>73.4</td>
<td>86.6</td>
<td>79.3</td>
</tr>
<tr>
<td>Rural not employed</td>
<td>92.1</td>
<td>69.3</td>
<td>84.4</td>
<td>105.0</td>
</tr>
<tr>
<td>Rural non-agricultural (rich)</td>
<td>194.6</td>
<td>126.5</td>
<td>168.2</td>
<td>161.7</td>
</tr>
<tr>
<td>Urban poor</td>
<td>123.3</td>
<td>130.5</td>
<td>111.7</td>
<td>121.2</td>
</tr>
<tr>
<td>Urban not employed</td>
<td>144.6</td>
<td>131.4</td>
<td>101.8</td>
<td>149.8</td>
</tr>
<tr>
<td>Urban rich</td>
<td>323.2</td>
<td>214.9</td>
<td>256.0</td>
<td>217.3</td>
</tr>
</tbody>
</table>

Sources: Central Board of Statistics (2003a), Table 3.32

6. THE GROWTH COLLAPSE AT THE CENTURY’S END AND ITS IMPLICATIONS FOR THE POOR

When the Bank of Thailand decided to float the baht in early July 1997, it was widely argued that the contagion effect on neighbouring economies would be slight\(^{16}\). Few predicted the collapse of confidence and the consequential capital flight which occurred in Indonesia in the latter part of 1997 and early 1998. Exactly why this happened is still controversial. What is now clear is that both during 1998 and subsequently, the capital flight was much larger, and had far more serious effects on the real economy than either the Indonesian government or the multilateral agencies had predicted at the end of 1997\(^{17}\). The contraction in real per capita GDP in 1998 was more severe than in any other part of the ASEAN region, and the recovery was slower than in South Korea, Thailand or Malaysia. In 2004, per capita GDP was still lower than in 1997 (Table 2).

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\(^{16}\) See for example “Let This be a Lesson”, Far Eastern Economic Review, June 12, 1997. Grenville (2004: 78) claims that in mid-1997, IMF officials were “quietly confident that Indonesia could weather the storm”.

\(^{17}\) The budget announced by President Soeharto in early January 1998 assumed a positive growth rate of four per cent in 1998. Although this was considered too optimistic at the time, few realised how serious the growth collapse in 1998 would be. The main reason for this failure was that both the IMF and the Indonesian authorities badly underestimated the effect of the crisis on capital outflows; see Grenville (2004: 80).
The real decline in output was driven on the expenditure side by a massive contraction of 33 per cent in investment expenditures. As a percentage of GDP, investment fell from over 32 per cent in 1997 to 21.6 per cent in 1999, and increased only slightly between 2000 and 2002. The contraction in private consumption expenditure was much less. The slower decline, and faster recovery in private consumption expenditures is the main reason why the effect of the growth collapse on living standards was not as severe as some were predicting in 1998. There is now a consensus among most analysts that the headcount measure of poverty rose sharply in 1998, and reached a peak late in that year, although there is some dispute about how fast the subsequent decline was. According to one estimate, it had fallen below the pre-crisis level by 2000 (Suryahadi, Sumarto and Pritchett 2003, Figure 2). The estimates prepared by the Central Board of Statistics on the basis of applying their poverty line to the SUSENAS surveys show the decline in the headcount measure was slower, and only returned to the 1996 level in 2003. But because of population growth, there were more people in poverty in 2003 than seven years earlier. Numbers below the poverty line only fell below 1996 levels in 2005, although they increased again the following year (Central Board of Statistics 2004, Table 12.1.B; Central Board of Statistics 2008: Table 5.4).

As concern about the effects of the crisis on living standards mounted in the second part of 1998, the Indonesian government with support from several multilateral and bilateral donors, launched an ambitious set of programs intended to provide "social safety nets" (jaring pengaman sosial). This term was new to the vocabulary of the Indonesian public policy discourse, as indeed were most of the programs. Rather than build on existing programs, many of which were targeted to regions outside Java, the government decided to launch new initiatives. The distribution of subsidized low-quality rice to the poor, and the school scholarship scheme undoubtedly did help many poor people, although the targeting of both programmes was far from perfect. In their discussion of schooling in Indonesia after the crisis, Jones and Hagul (2001: 227) concluded that "Indonesia's educational system appears to have come through the economic crisis relatively unscathed". But growth in secondary enrollment rates slowed compared with the early and mid-1990s, and the government was forced to postpone the goal of universal education from ages 6 to 15. Enrollment rates at the upper secondary level in 1998 were much higher for the top quintile of the expenditure distribution compared with the poorest two quintiles. Data for 2003 confirm that even after the worst effects of the crisis were over, upper secondary and post-

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18 The IMF has argued that the output collapse of early 1998 was driven by "the near collapse of private investment". See IMF (2003: 65-66).
secondary enrollments are still heavily influence by household income (Table 7).

Table 7
School Participation Rates by Expenditure Group and Location, 2003

<table>
<thead>
<tr>
<th></th>
<th>7-12</th>
<th>13-15</th>
<th>16-18</th>
<th>19-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 20%</td>
<td>98.9</td>
<td>95.4</td>
<td>80.0</td>
<td>33.5</td>
</tr>
<tr>
<td>Middle 40%</td>
<td>98.2</td>
<td>91.8</td>
<td>69.6</td>
<td>14.2</td>
</tr>
<tr>
<td>Bottom 40%</td>
<td>96.3</td>
<td>80.7</td>
<td>49.4</td>
<td>6.9</td>
</tr>
<tr>
<td>Total</td>
<td>97.8</td>
<td>89.3</td>
<td>66.7</td>
<td>19.2</td>
</tr>
<tr>
<td>Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top 20%</td>
<td>97.9</td>
<td>90.4</td>
<td>62.3</td>
<td>14.2</td>
</tr>
<tr>
<td>Middle 40%</td>
<td>97.2</td>
<td>83.6</td>
<td>49.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Bottom 40%</td>
<td>94.8</td>
<td>71.0</td>
<td>31.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Total</td>
<td>95.6</td>
<td>75.6</td>
<td>38.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>

a Percentage of the population in the relevant age groups who are attending school

Sources: Central Board of Statistics (2003b)

The money spent on all the social safety net programmes was far less than the cost of restructuring the banking system, the benefits of which accrued largely to better-off Indonesians. This represented a transfer of wealth “beneficial for the corporations and, to a lesser extent for household borrowers and depositors, but disastrous for the general public” (Frecaut 2004: 55). Between 1998 and 2002, interest payments on bank restructuring bonds accounted for between 19 and 27 per cent of total budgetary expenditures. There can be little doubt that the steep rise in interest payments has squeezed out other forms of government expenditure, both recurrent and on capital works, which might have benefited poorer sections of the population who did not have bank accounts and were thus not in any way direct beneficiaries of bank recapitalisation.
7. LESSONS FROM HISTORY

The Indonesian experience in both the early twentieth century and during the Soeharto era (1966-98) would seem to indicate that growth of GDP based on export growth and improvements in the terms of trade can lead to growth in employment opportunities which benefit the poorer income classes even if the better off in urban areas benefit to a greater extent. But government policies do matter. In the early 1900s, the Dutch colonial regime embarked on an ambitious set of policies which were intended to improve incomes and living standards for the indigenous population, especially in Java. In their emphasis on irrigation, agricultural intensification, education, and accelerated land settlement outside Java, these policies bore a close resemblance to the policies adopted by the Soeharto government after 1969. But a combination of fiscal conservatism, declining terms of trade, and growing concern about demands for political independence among sections of the indigenous population led to the curtailment of many expenditure programmes even before the depression of the 1930s struck.

The impact of the depression was especially severe in Indonesia because producers of important export crops such as sugar did not have protected markets to sell to, and were penalized by mounting protectionism especially in the British Empire. But policies such as the Dutch decision to keep both the home and the colonial economies on the gold standard certainly made the situation more difficult for producers of traded goods. Only after 1936 did the policy stance shift, but there was too little time for the new approach to industrial policy to have much impact before the Japanese occupation effectively brought an end to Dutch colonialism in Indonesia.

The decades from 1950 to 1970 were characterized by little economic growth in per capita terms, and little impact was made on the widespread poverty which prevailed both in Java and in parts of the Outer Islands. Trade and exchange rate policies encouraged many of the export-producing regions outside Java to de-link from the Indonesian economy. In the early phase of the Soeharto era, the government devalued the rupiah, and captured a considerable part of the improvement in the terms of trade through taxation. Part of the oil revenues were spent on widening access to education and health as well as on improving infrastructure. It took some time for these expenditures to have a visible impact on poverty, but by 1984 there were signs of a decline in the numbers below the official poverty line, especially in rural areas, and also some improvement in health and education indicators. Even when the terms of trade fell in the 1980s, and some budgetary austerity was forced on the government, pro-poor expenditures were protected. Numbers below the official poverty line continued to fall until
1996, although controversies mounted about the choice of poverty line, which many critics argued was too low.

By the last decade of the 20th century, open economies such as Indonesia were vulnerable not just to adverse international developments such as swings in the terms of trade but also to falling confidence on the part of both domestic and foreign investors in the country's economic management. This was dramatically demonstrated in the last months of 1997. While the causes of the capital flight which occurred in late 1997 and early 1998 continue to be debated, the consequences in terms of declining GDP and increased poverty are clear. The impact on poverty was considerable, and although a return to economic growth after 2000 was accompanied by a fall in the headcount measure of poverty, numbers below the official poverty line were higher in 2006 than a decade earlier. The target set in 2004 of reducing the headcount measure of poverty to 8.2 per cent by 2009 will not be met, and it is clear that sustained economic growth will be essential for further reduction in poverty.

But economic growth alone will not be sufficient even to reduce numbers below the official poverty line to zero, let alone give every Indonesian household access to a reasonable standard of health services and education. Much more thought will have to be given to implementing a range of programs to assist poorer households gain better access to education and health care, including income supplements for poorer households. The main lesson of the years from 1930 to 1970 in Indonesia was that economic stagnation caused widespread poverty and economic deprivation for the majority of Indonesians. The lessons of the last three decades of the 20th century were that faster growth based on increasing links with the global economy reduces poverty, but also increases vulnerability to shocks, originating from domestic as well as international sources. Although the government deserves some credit for implementing social safety net policies in the wake of the 1997/98 crisis, much remains to be done if the goal of a just and prosperous society in Indonesia is to be achieved in the 21st century.
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