

**INDONESIA'S CRISIS AND RECOVERY:
THE MYTHS AND REALITY**

by

Iftikhar Ahmed

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PREFACE

Possible bottoming out of Indonesia's economic crisis and prospects of early recovery perhaps provides the ideal moment for launching the ILO Jakarta Office Occasional Discussion Paper Series providing policy and analytical insights to both the highly debated social impact of the crisis and the recovery process.

This series will probably add fuel to the fire on controversial issues relating to the social impact of the crisis e.g. the multi-dimensional correlates of poverty, inequality, unemployment and the poor's coping mechanisms to the sudden shock. Vital topics such as these will be deliberately given priority to provoke further policy debate and generate discussions in search of the truth so crucial to policy formulation aimed at preventing a human catastrophe.

Errors in assessment, diagnosis and policy design could lead to catastrophic social consequences if policies fail to adequately mitigate the human suffering due to disagreements over social safety net programme targeting which when left simmering could trigger widespread social unrest.

The first paper in this series begins by setting a wider perspective on the social issues by exploring and demystifying some of the commonly-held myths about the origins and controversies surrounding social impact of the crisis and over important elements of policy approaches for the revival of growth based on equity.

This discussion paper has been developed on the basis of a presentation made by the author at the European Union - Indonesia Dialogue (Brussels, 23-24 February 1999) jointly organized by The International Dialogues Foundation (IDF), The Hague, and The European Institute for Asian Studies (EIAS), Brussels.

Future topics under the series is expected to include policy issues of retraining of retrenched workers, informal sector employment, replicability of the Indonesian experience of following-up on the ILO Declaration on the fundamental principles and rights at work, impact of the crisis on child labour and on gender, opportunities for industrial relations, minimum and real wages, the plight of migrant workers, labour market information, etc.

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INTRODUCTION

The Asian financial crisis has triggered a flood of papers and articles on this subject offering a bonanza for organisers of meetings and endless analysis of every conceivable perspective of the crisis.¹ However, there is as yet no clear consensus on the causes, diagnosis, depth and duration of the crisis and on the measures for the mitigation of the adverse social impact of the crisis.

Instead of entering into a discussion on this rough terrain of the literature, the purpose of this paper is to selectively pick and demystify some **eleven** of the most commonly-held, although often controversial, myths associated with the financial crisis and revival of economic growth in Indonesia.

MYTH 1. *The Indonesian financial crisis was caused by crony capitalism.*

It is widely believed that crony capitalism characterized by give-away privatization to the relatives and cronies of the political leadership, the granting of artificial monopoly rights, government direction of credit towards political allies and government bail-outs of politically connected enterprises was the paramount cause of the present financial crisis in Indonesia.

On the contrary, it has been argued that the crisis was caused by many other factors such as volatile international financial markets, weak corporate governance and the creation of a moral hazard in the form of government guarantees to politically connected domestic lending and expectation of guarantees of IMF-rescue plans to cover risks by foreign lenders (Lee, 1999). While transparency and good governance is crucial for Indonesia's economic recovery and for its return to a sustainable growth path, ridding Indonesia of its hordes of crony capitalists is only a part of the solution.

It is by now abundantly clear that the *external* Thai crisis of July 1997 triggered the Indonesian financial crisis and the *internal* endemic corruption, collusions and nepotism in Indonesia may only have served to deepen the crisis. Indeed miracle growth rates were sustained over a long period despite the existence of such crony capitalism.

¹ For instance book titles like "Asia in Crisis"; "East Asia in Crisis" and "The Asian Financial Crisis" as well as a collection of articles and reprints compiled as "The Crash of '97" and "After-Shock" are reviewed in "Chronicling Asia's Crisis" (Crampton, 1999) with a roaring business for the publication industry. There were also optimistic titles like "East Asia: The Road to Recovery" (The World Bank, 1998a) and "Economic Crisis: Evidence and Insights from East Asia", (Furman and Stiglitz, 1998).

MYTH 2. *Massive unemployment is the principal cause of poverty in Indonesia.*

The major cause of the sudden upsurge in poverty in Indonesia is high inflation induced by the crisis whereas in the other countries of East Asia the cause lies in the rise in unemployment. In Indonesia nearly 70% of the crisis-induced increase in poverty can be attributed to inflation as compared to over 80% due to unemployment in Thailand and Republic of Korea (Table 1).

Table 1.
Increase in Poverty Due to the Crisis by Country and Source:
East Asia, 1998 *

Cause of Poverty			Due to unemployment		Due to inflation	
Country	Increase in the Number of Poor		Millions	Percentage of total increase	Millions	Percentage of total increase
	Million	Percentage of population				
Indonesia	39.9	20	12.3	30.8	27.6	69.2
Republic of Korea	5.5	12	4.7	85.5	0.8	14.5
Thailand	6.7	12	5.4	80.6	1.3	19.4

* Source: Lee, 1998, as compiled from IMF, 1998

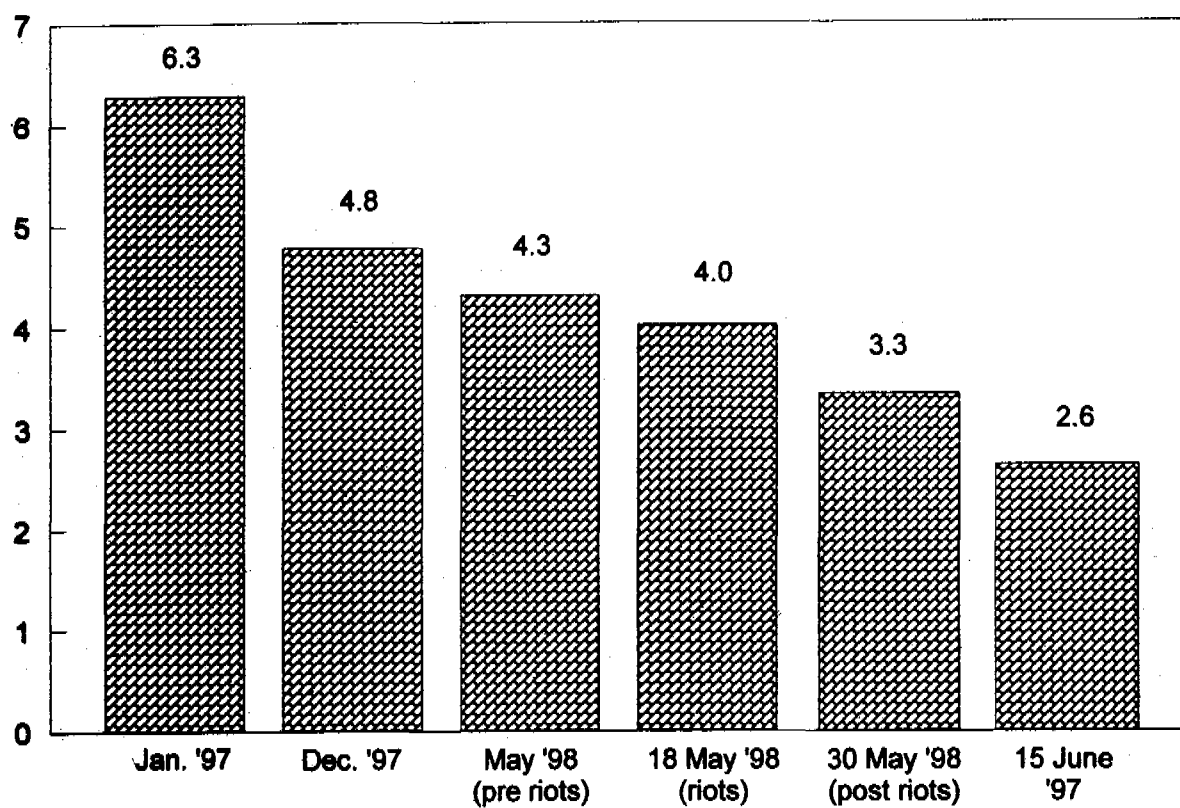
Furthermore, the massive erosion of purchasing power has been particularly devastating for the poor and low-income groups as the inflation rate for rice at 50% exceeded the general consumer price index (Sumarto, et.al., 1999).²

This is most drastically demonstrated by the fact that the purchasing power of the daily minimum wage, unchanged between January 1997 and the end of June 1998, has been severely eroded due to rapid inflation, and could only purchase 2.6 kg of rice in mid-June 1998 compared with 6.3 kg less than a year and a half ago (Figure 1).

Therefore, while the major thrust of anti-poverty programmes in Thailand and the Republic of Korea would have to be on employment generation, in Indonesia job creation will have to be accompanied by a prolonged maintenance of subsidies on items consumed by the poor and by strong anti-inflationary measures. Of course, targeting accurately to the poor would be crucial.

² This will obviously have a crushing effect on the poor given that rice alone accounts for 30 per cent of the total spending of the poorest decile of the population in Indonesia (Mannelyan and Walton, 1998).

Figure 1
Purchasing Power of Minimum Wage in terms of Rice Equivalent
(Kg of Rice)



Source: ILO/UNDP 1998

However, anti-poverty programmes would have to take into account other correlates of poverty (e.g. the poor's access to employment opportunities, health services and education) given that poverty in Indonesia as elsewhere, is multi-dimensional. Clearly inequality, depth of poverty, vulnerability and relative deprivations deserve consideration in the design of poverty-alleviation programmes with target indicators against which progress in poverty-reduction could be measured.

A nation-wide survey of all (4025) the sub-districts (*kecamatan*) reveals that indeed unemployment, hunger and loss of income, the three major correlates of poverty have been worsened by the financial crisis in Indonesia (Table 2).

Table 2
Social Impact of the Financial Crisis: Indonesia 1998*
(% of 4025 *Kecamatan* or Sub-districts ranking different correlates of
poverty as priority problem) **

Area	Urban	Rural	Total
Correlates of Poverty Impact			
Unemployment	6.5	20.1	27
Finding staple food	3.5	17	21
Loss of income	4.5	20	25
Children dropping out of school	.3	1.5	2
Reduction in health service	.3	1.4	2

* Source: Sumarto, et.al., 1999, Table 5

** Three local government official (expert) respondents were chosen per *kecamatan* who gave their own perception of the relative intensity of the impact of each correlate of poverty.

Although the *Kecamatan* expert respondents ranked poor's access to public health services as being the least worse among the five correlates of poverty (Table 2), it is clear from both the Indonesian Family Life Survey (IFLS2) and the massive SUSENAS survey (200,000 households) that the crisis has had a devastating effect on children's medical care (Table 3). Both the surveys show a relatively larger decline in the access of the poor to cheaper public health services.

Table 3
Impact of the crisis on Access to Health Services:
Adults and Children by source of service
(percentages under each category)*

Source/Type of Health Service	1997	1998	Change	Sample Size
<u>IFLS2</u> : (seven provinces)**				2,000 households
Adults: any health services	14.4	13.1	- 1.1	
Adults: public health services	7.2	5.2	- 1.8	
Children: any health services	25.8	19.9	- 5.9	
Children: public health services	20.3	13.2	-7.1	
<u>SUSENAS</u> :				200,000 households
Private health services	7.0	6.5	- 0.5	
Public health services	7.6	5.6	- 2.0	
Public health centres	6.4	4.5	- 1.8	
Total	14.6	12.1	- 2.5	

* Source: Poppele, et.al., 1999, Table 25

** The Indonesian Family Life Survey (IFLS)

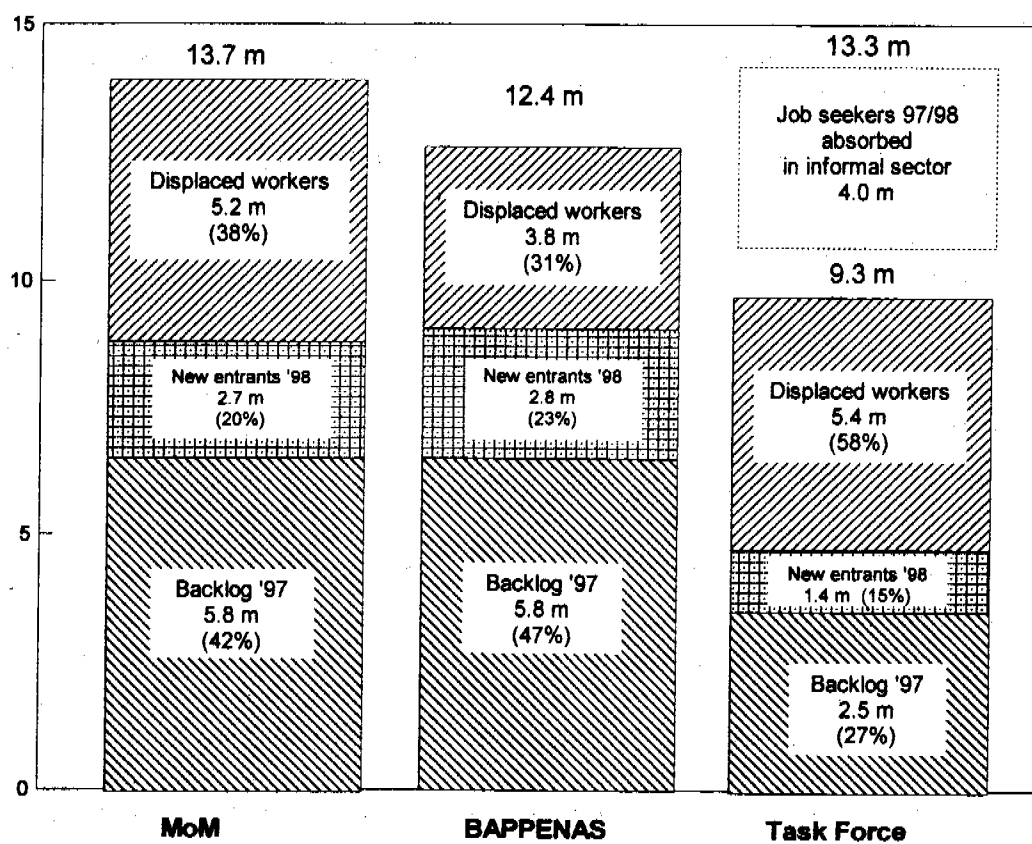
Despite the above evidence of the severe and sharp decline in access to public health services by the population (particularly of the children), an incredibly insignificant proportion of respondents who are also the providers of those services from the *kecamatan* survey (Table 2) consider the reduction in health services as a priority problem. This contradictory finding is little surprising.

The Kecamatan Rapid Poverty Assessment was based on the perceptions of a *subjective* expert respondent who is *dokter puskesmas* (government health official) who is head of the kecamatan health centre and sees patients from different parts of the kecamatan (Sumarto, et.al., 1999). Qualitative subjective opinion collected from a respondent whose answers reflects on the efficiency of his/her own performance, obviously would cast doubts on the degree of unbiasedness of the response obtained.

MYTH 3. *Retrenched workers constitute the core of the unemployment problem.*

While it is true that 1 in every 5 formal-sector jobs in Indonesia has been wiped out by the crisis in 1998 alone, the informal sector has been a refuge for 4 million job seekers in 1998 (Figure 2). Services, manufacturing and construction have been the worst hit by unemployment.

Figure 2
Alternative Estimates of Crisis-Induced Unemployment in 1998



Source: ILO/UNDP 1998

In the interim there is enough justification for deregulating and promoting the now swollen informal sector. For instance, these micro enterprises should be freed from the requirement to obtain trade and other licenses.

The commendable action already taken by some local authorities in Indonesia to allow them to operate from their existing locations should be made permanent and emulated throughout the country. These steps will be more significant than the provision of what are often unsolicited credit and technical and extension programmes. In addition, the provision of well-located and appropriate infrastructure, especially power, water and transport, will be an important measure to improve the supply conditions of the informal sector (ILO/UNDP, 1998).

MYTH 4. *Emergency short-term employment schemes can provide relief to the bulk of the workers rendered jobless by the crisis.*

The magnitude of unemployment is so overwhelming that the proposed programmes of direct employment creation schemes are no match for the numbers seeking jobs. In Indonesia a meagre 10 per cent of the total unemployed can expect to obtain jobs in these schemes as compared to an even meagre 7 per cent in Thailand. (Lee, 1998; ILO/UNDP, 1998).

While open unemployment is estimated at over 9 million workers following the crisis (Figure 2), the proposed emergency employment schemes can find jobs for only 2 million job seekers (Table 4).

This clearly points to the need for a renewed emphasis on medium- and long-term employment-led growth strategies which also address the issues of the pattern of (equitable) growth in addition to revival of growth.

MYTH 5. *Asset sales has been the principal coping mechanism of the Indonesian population devastated and impoverished by the financial crisis.*

Basically four major coping mechanisms are considered. Distress **sales of assets**, is the **first** major mechanism for coping against the sudden shock of the crisis. Nearly 4 out of every 5 of the 4025 subdistricts (kecamatan) of Java where the vast majority (60%) of the 205 million Indonesians reside have reported people selling assets as their principal coping mechanism (Table 5)³. In the Outer Islands where a smaller proportion (40%) of the Indonesian population is to be found, 35% to 57% of the *kecamatan*s also reported asset sales as the principal coping mechanism.

³ Actually three expert respondents from each *kecamatan* reported "people selling assets to meet basic needs" as a coping mechanism was worse. Asset sales included sales of animals and consumer durables (Sumarto, et.al., 1999).

Table 4
Major Public Works Programmes Proposed for Financial Year 1998/99*

No	Title	Ministry/ Agency	Budget		Labour Costs Rp. Bill. (40%) of Total Budget ²⁾	Pers. Days Mill. ³⁾	Pers. Years '000 ⁴⁾
			US\$ Mill.	Rp. Bill. ¹⁾			
	<u>Government only</u>		<u>175</u>	<u>1,400</u>	<u>560</u>	<u>56</u>	<u>187</u>
1.	Urban Construction	Manpower	37.5	300	120	12	40
2.	Rural Construction	Manpower	37.5	300	120	12	40
3.	Reforestation	Forestry	62.5	500	200	20	67
4.	Rural Electrification	Mines/Energy	37.5	300	120	12	40
	<u>With World Bank</u>		<u>1,160</u>	<u>9,280</u>	<u>3,712</u>	<u>371</u>	<u>1,237</u>
5.	Kecamatan Dev.	Local Govt.	300	2,400	960	96	320
6.	Village Infrastructure	Local Govt.	300	2,400	960	96	320
7.	Crash Urban Prog.	Public Works	60	480	192	19	63
8.	Urban Low Income	Local Govt.	500	4,000	1,600	160	534
	<u>With ADB</u>		<u>40</u>	<u>320</u>	<u>128</u>	<u>13</u>	<u>43</u>
9.	Crash Urban Prog.	Public Works	40	320	128	13	43
	<u>With OECE</u>		<u>500</u>	<u>4,000</u>	<u>1,600</u>	<u>160</u>	<u>533</u>
10.	Village Infrastructure	Local Govt.	300	2,400	960	96	320
11.	School Renovation	Education	200	1,600	640	64	213
	<u>TOTAL</u>		<u>1,875</u>	<u>15,000</u>	<u>6,000</u>	<u>600</u>	<u>2,000</u>

* Source: ILO/UNDP, 1998

Note: Assumptions:

¹⁾ US\$ 1 = Rp.8,000.-.

²⁾ Construction costs include materials and equipment (60%) and labour (40%) following Ministry of Public Works guidelines for labour-intensive projects.

³⁾ Labour cost per day = Rp.10,000.-.

⁴⁾ Person Year = 300 days.

Table 5
Coping Mechanism of Crisis hit Population of Indonesia
by Region and Urban/Rural break-down*

(Percentage of Kecamatan reporting "people selling assets
to meet basic needs" as a coping mechanism was "worse")

N = 4025 kecamatan

Region	Total	Urban	Rural
DI Aceh	65.6	93.3	62.0
North Sumatra	49.2	68.6	43.8
West Sumatra	52.7	75.0	43.9
Riau	37.2	61.1	30.9
Jambi	32.2	53.9	25.5
South Sumatra	28.4	50.0	26.6
Bengkulu	25.8	57.1	16.7
Lampung	43.9	75.0	36.3
Average	41.9	66.8	35.7
Jakarta	88.4	88.4	
West Java	83.2	87.5	82.5
Central Java	73.8	81.6	72.4
DI Yogya	65.4	84.2	59.0
East Java	76.7	86.0	75.4
Average	77.5	85.5	72.3
Bali	56.9	66.6	53.9
NTB	72.1	77.8	71.2
NTT	54.0	73.3	51.4
East Timor (Timtim)	40.3	46.2	38.7
West Kalimantan	33.6	100.0	26.7
Central Kalimantan	55.2	87.5	50.0
South Kalimantan	70.2	84.6	68.4
East Kalimantan	71.4	85.7	66.6
Average	56.7	77.7	53.4
North Sulawesi	28.0	35.3	26.4
Central Sulawesi	29.0	44.4	26.6
South Sulawesi	38.6	58.9	33.1
Southeast Sulawesi	51.6	55.5	51.0
Maluku	30.0	42.9	26.1
Average	35.4	47.4	32.6

* Source: Poppele, et.al., 1999 Table 2

On the other hand UNICEF's 100 Village Survey which actually re-surveyed in 1998 the same 120 people it had surveyed in each of the 100 villages earlier in 1997 to discover that ownership of durables has increased in rural areas (Sumarto, et.al., 1999).

While the former survey (of *kecamatans*) reveals the distress sales of assets possibly at throw-away prices made by the poorest to cope with the sudden shock, the latter evidence perhaps, suggests that the rich took advantage of the cheap prices at which these were sold.

The path of the transactions would clearly determine whether inequality has worsened. The Gini coefficient (of expenditures) which had a declining trend prior to the crisis (0.33 in 1986 and 0.32 in 1990) actually increased at the start of the crisis (0.36 in 1997) (ILO/UNDP 1998)⁴. This trend of worsening inequality together with the above evidence on both distress sales and acquisition of assets seem to confirm that the poor became increasingly more assetless while the rich accumulated more.

A **second**, coping mechanism for the newly unemployed is seeking inadequate low earnings from **informal sector** jobs. As has already been noted nearly 4 million displaced workers in Indonesia have taken refuge in the informal sector (Figure 1). A decade prior to the crisis, self-employed and family workers had declined from 74% of the work force in 1986 to 65% in 1997. The crisis brought a sharp turn around as this proportion jumped to 70% in just one year (ILO/UNDP, 1998).

Return migration of the unemployed workers from urban areas harder hit by the crisis to the relatively less affected rural areas is considered as the **third** coping mechanism by the poor newly unemployed workers and the impoverished urban dwellers.

Survey evidence indicate a greater than normal inflow of males in both urban and rural *kecamatans* because they lost their jobs somewhere else (Sumarto, et.al., 1999). Gender differences on the impact of the crisis were noted by those surveys as women had registered an increase, though smaller, in the return movement to the *kecamatan* compared to the previous year. The crisis also appears to have put a temporary lid on the pace of outmigration.

The **fourth** coping mechanism is adopted by the impoverished poor making up of their lost or depleted incomes by working long hours. The **100 Villages Survey** revealed that the proportion of the 12000 individuals interviewed in 1997 working over 35 hours a week had increased by nearly 8 per cent in 1998. Once again, the women were bearing the brunt of the crisis, as a greater proportion (11%) of them were working more than 35 hours a week compared to the men (5.8%) (Poppele, et.al., 1999).

⁴ Gini coefficient is the measure of inequality in the distribution of incomes or expenditures at the personal or household level.

MYTH 6. *Due to the severity of the inflation-induced poverty in Indonesia, food subsidy is a more cost-effective means of transferring incomes to the poor.*

It appears that emergency employment creation schemes are more efficient in transferring incomes to the poor compared to other mechanisms (Table 6). It has been estimated that transferring a dollar to the poorest 15% of the population costs in excess of \$3.81 for *padat karya* (employment-creation) programmes as compared to \$8.20 for transfer of \$1 through rice price subsidies.

Table 6
How Much Does it Cost to Transfer One Dollar to the Poor?*

Mechanism of Income Transfer	Poor (Bottom 15%)	Poor & near poor (Bottom 30%)
Rice price subsidies ¹	\$3.60 \$8.20	\$2.10 - \$3.60
Public works programmes ²		
<i>Padat karya</i> -type programmes ³	\$3.81 - \$5.33	\$2.54 - \$3.56
VIP-type programmes ⁴	\$2.08	\$1.85

¹ The range of costs reflect price subsidies on low and average quality rice, respectively. Cost savings result from the "self-targeting" nature of lower quality rice.

² Differences in the costs for targeting the poor vs. the poor plus "near poor" reflect differences in assumptions about what proportion of the wages paid out actually go to the target group.

³ The cost range reflects relatively better or worse targeting efficiency due to "leakage" of wage opportunities to non-poor and possible "administrative leakage" of funds to officials at various levels during project implementation. Under conditions with extremely high levels of administrative leakage, the costs of transferring a dollar to the poor through *padat karya*-type programmes could be much higher than reported here.

⁴ VIP stands for Village Infrastructure Projects financed by the World Bank.

* Source: The World Bank, 1998b

It is clear that the total costs of mitigating poverty impacts of the crisis is 3 times higher if targeting of programmes is not improved over existing ones and funds are siphoned off the top as resources goes through the system.

MYTH 7. *Social safety net programmes designed for the poor to cope with the adverse impact of the crisis should equally emphasise all the correlates of poverty like education, health and household food security together with job creation and boosting income levels of the working poor.*

A post-crisis survey of three local government officials in each of the 4025 subdistricts (*kecamatan*) of Indonesia dealing with the delivery of support services for agriculture, health, education and urban development have rated the impact of the crisis on employment and income support of the highest importance on a qualitative scale (Table 2).

The impact on education, health have ranked very low in terms of the need for priority assistance as perceived by the respondents. The impact of the crisis on unemployment has been rated to be the most severe in both rural and urban areas. This evidence is quite contrary to some current conclusions that the impact of the crisis is primarily urban. There is also the suggestion that programmes for mitigating the hardship from the crisis would have to target categories of population (e.g. the emerging urban middle class) more sharply as they are more severely affected by the crisis than the population identified for targeting of traditional poverty-alleviation programmes prior to the crisis.

Nearly two-thirds of a sample survey of 1,234 respondents from five major cities of Indonesia in mid-February 1999, confirmed that the social violence was primarily caused by the economic crisis and high unemployment rate (The Jakarta Post, March 4, 1999). This further supports the priority ranking obtained from the *kecamatan* survey.

MYTH 8. *Urban areas have been hit much harder by the crisis than rural areas.*

This hypothesis has been most aggressively promoted by a team of analysts capitalising on the expert, although subjective, opinion of respondents who offer their perceptions on the impact of the crisis on the population they cover locally at the *kecamatan* level with their social services as government officials responsible for the delivery of these very services (Sumarto, et.al., 1999 & Poppele, et. al., 1999).

A close scrutiny of the evidence furnished by them on distress sales of assets in urban and rural areas reveals the following (Table 5).

Three out of every 4 rural Javanese had resorted to sale of their assets to meet their basic needs. In contrast over 4.5 out of every 5 individuals resorted to asset- sales in urban areas for their survival.

While it has to be admitted that relatively higher proportions of the population harder hit by the crisis are systematically suggested by the expert respondents in urban *kecamatan*s, the rural/urban difference is not that significant.

On the contrary a higher percentage of the very same set of expert respondents have consistently ranked rural areas harder hit by the crisis in respect of the three components of the correlate of poverty.

While only 6.5% of the urban *kecamatan*s rated unemployment as priority problem over one fifth of the rural *kecamatan*s have ranked it as a priority problem (Table 2). Similarly, nearly a fifth of rural *kecamatan*s have ranked food security as a priority problem as compared to only 3.5% of the respondents from urban *kecamatan*s.

Finally, while one fifth of the rural *kecamatan*s rank the loss of income as a priority problem a meagre 4.5% of the urban *kecamatan*s consider it so (Table 2).

MYTH 9. *Civil society can be mobilized to plug the holes in the social safety net programmes.*

The operational mechanism to transfer \$1 under the social safety net programme to the bottom 15% of the poor in Indonesia costs over \$3 possibly due to corruption, collusion and nepotism (KKN). Therefore, an independent civil society social safety net monitoring machinery is being considered as one possible response to curtail KKN on such programmes.

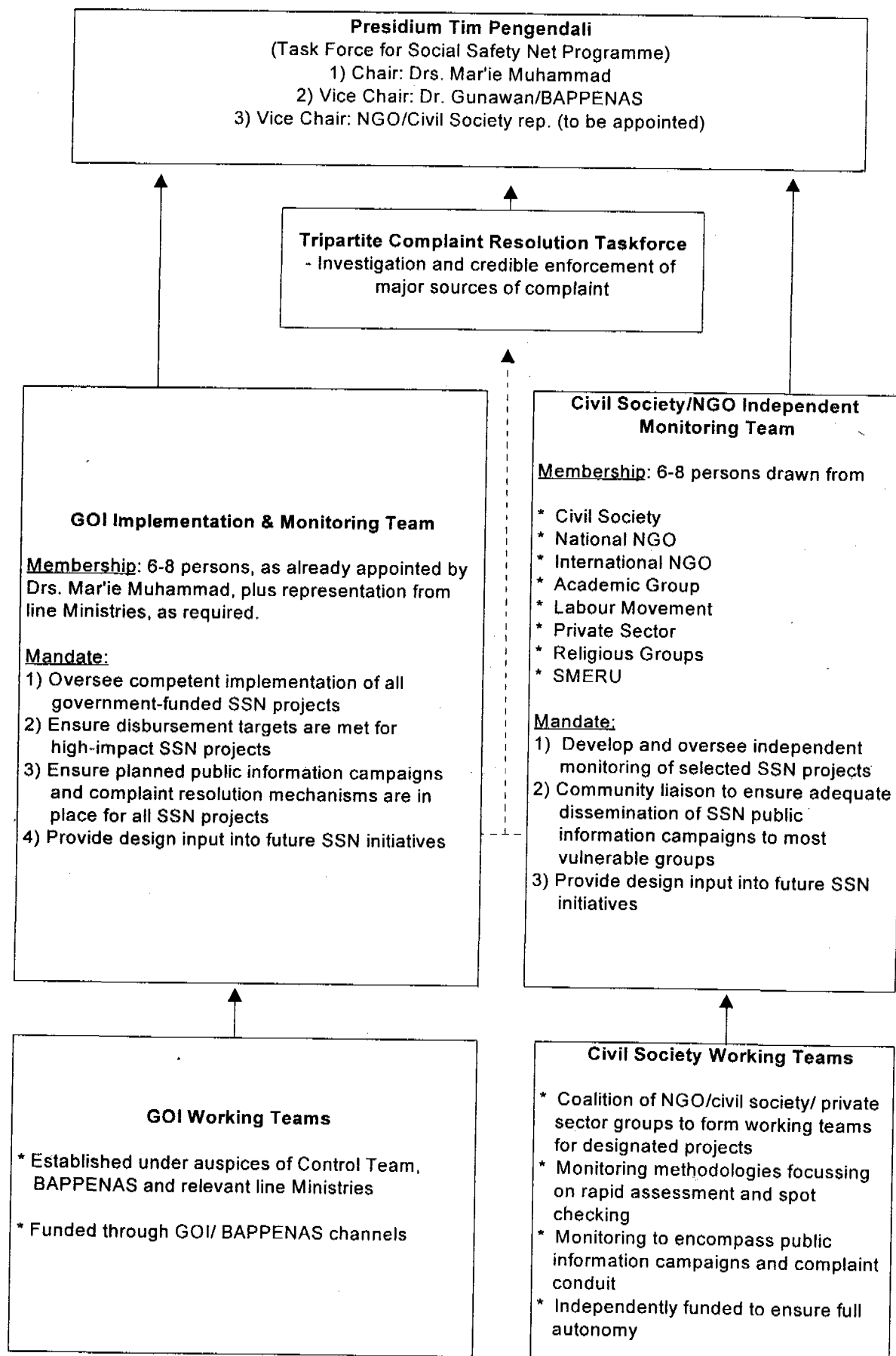
Conceptual models are very easy to formulate as was attempted in Indonesia recently (Chart 1).

I do not question the usefulness of the conceptual structure of the Civil Society Independent Monitoring of the Social Safety Net Programme in Indonesia. Despite, the challenges of operationalizing it, I believe this machinery can demonstrably clean up the corruption that corrodes the effectiveness of institutions responsible for delivering public services to the crisis-affected poor by introducing transparency and accountability.

As can be seen from Chart 1, this would require the following elements for safeguarding the social safety net:

- A publicity and information campaign to reach grass roots level with information about the programme, its budget, beneficiaries and what they should receive, decision making structure, and the channel for complaints.
- Community, trade union, employers' group and NGO involvement in monitoring with linkages both to the community and to a national network that will have access to the national oversight group.
- A complaint mechanism that will receive and act on complaints that will be supervised by the national group to ensure responsiveness to complaints.

Chart 1.
Civil Society Monitoring of the
Social Safety Net Programme: Indonesia



- The national group will carry out direct random spot checks on each of the programmes and their implementing agencies and will have sufficient power to take whatever action necessary to ensure the effective delivery of the programme.

In practice the above effort on the operationalization of the conceptual structure, have exposed pitfalls which have pulled the various constellation of civil society power blocks in different directions.

It leads me to the conclusion that the more brilliant a model in conceptual design, the challenges to its practical implementation become even more immense.

As regards trade union participation, ILO has assumed the responsibility to act as a facilitator to secure the representation, training and deployment of the selected members of 13 officially registered trade unions in Indonesia to safeguard the social safety net programme which appears to be making some progress.

However, the International NGO Forum on Indonesian Development (INFID) has urged the World Bank for the postponement of the disbursement of the Social Safety Net funds until the NGOs and civil society are actively involved in their design, monitoring and implementation (INFID, 1999).

At the suggestion of the World Bank and BAPPENAS, the ILO has now included representatives of the Employers' Group (APINDO) in its training programmes for monitoring alongside those of the trade unions.

In short, to demonstrate the immense practical value of the Monitoring machinery of the Social Safety Net (SSN) Programme in poverty-alleviation, if hypothetically we could eliminate KKN totally from the SSN programme through 100% effective monitoring, without extra \$, we could extend the benefits of the *padat karya* programme to the poor by 4 to 5 times.

Chart 2 provides the outcome, an organizational mechanism, derived from brainstorming sessions to operationalise the monitoring process among BAPPENAS and individual civil society groups.

MYTH 10. *Unemployment insurance is unaffordable in East Asia.*

It has been frequently argued that the fiscal costs of unemployment insurance and its administration are too high for developing countries.

Available evidence points to the fact that the required contribution rate is very low, ranging from 1 to 4 per cent of payroll. Assessments made by the ILO reveal that if the Republic of Korea, Thailand and Indonesia had introduced unemployment insurance in 1991, that is, six years before the onset of the crisis, an average required contribution rate of between 0.3 to 0.4 per cent of payroll from 1991 to 2000 would have been sufficient

to provide all insured job losers over this period, including during the current crisis, with 12 months of benefits. (Lee, 1998)

It clearly demonstrates that at very modest levels of required contributions, the effects of unemployment insurance on labour costs and hence on the demand for labour would be negligible.

MYTH 11. *"Asian values" which helped achieve miracle economic growth rates require postponement of the respect for human rights.*

"Asian values" which place communitarian values and social harmony above human rights are considered as equally legitimate with Western-inspired concepts of human rights including freedom of association by workers and the right to organize.

It is also postulated that the attainment of human rights should be postponed to the attainment of material well-being.

However, there is no empirical evidence of a conflict between fundamental human rights of workers and social and economic progress (Lee, 1998). Indeed, micro-level evidence from neighbouring Malaysia demonstrates that the actual implementation of workers rights at both the plant and industry has the effect of increasing productivity (Table 7).

Table 7
Effect of Unionization on Productivity-Enhancing Initiatives by Firms in Malaysia
(percentage of firms taking action indicated)

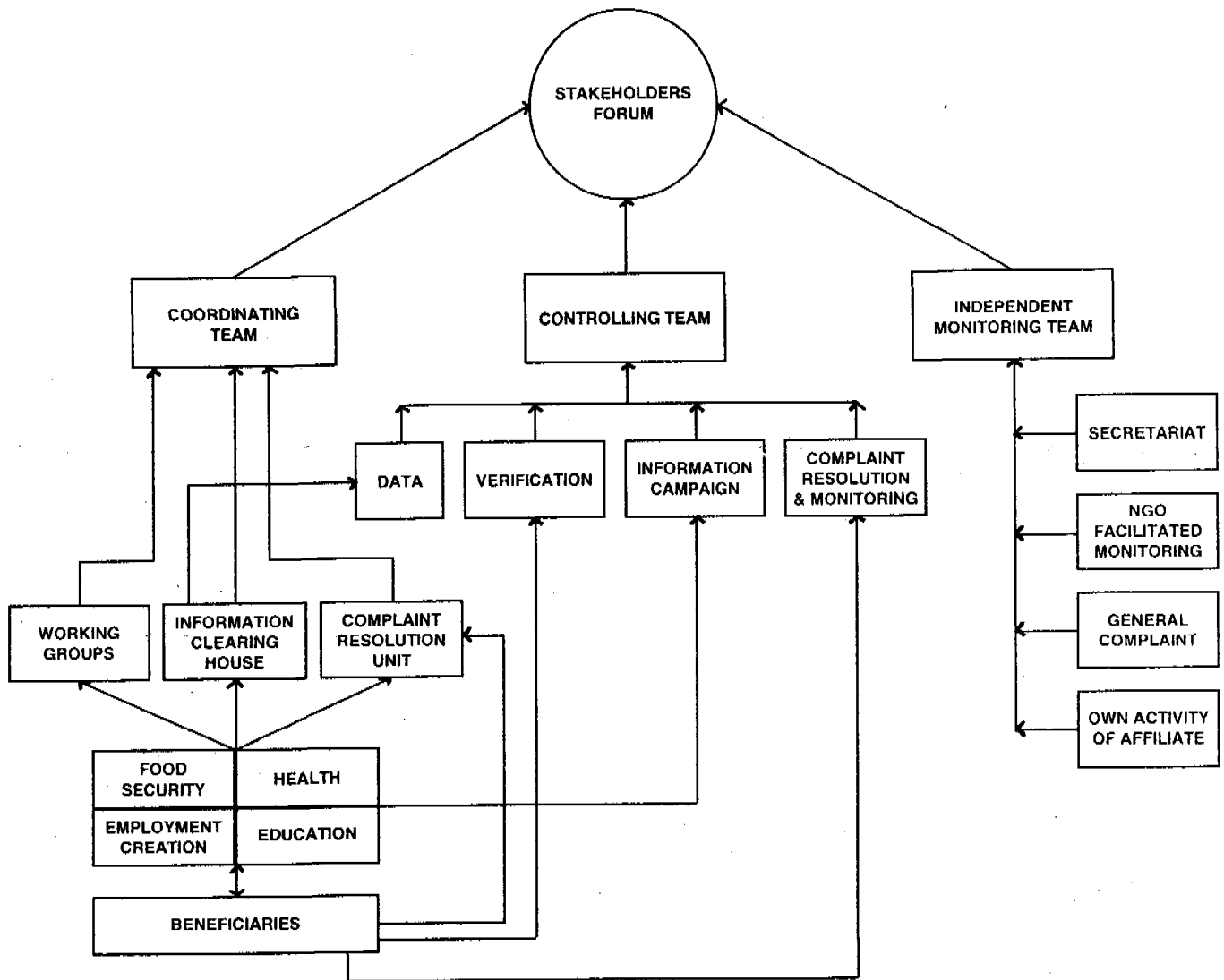
Productivity-enhancing Initiative	Implementation of job rotation policy*	Reorganization of work	Upgrading of technology	Extension of product range
Type of firm				
Plant union	30	29	40	20
Industrial union	31	32	37	26
Non-union	22	18	26	20

* Firms with more than 1,000 workers only.

Source: Standing 1992

Chart 2

National Organizational Setting for Social Safety Net (SSN)



Source: BAPPENAS Presentation at the Civil Society Consultations on Social Safety Net Monitoring

Furthermore, the miracle growth rates of East Asian "tiger" economies followed by their sudden and shattering financial crisis, the reverse appears to be true. Most dramatically, in Indonesia, the massive restoration of fundamental human rights was born out of the crisis (Table 8).

Indonesia has achieved the historic record of being the first East Asian country to ratify all fundamental human rights Conventions of the ILO at the height of a devastating blow to its economy which contracted by nearly 15% in 1998.

The hypothesis that miracle rates of economic growth have to precede the granting of human rights is now hard to maintain empirically judging from the experience of the East Asian financial crisis.

Table 8
Status of Ratification of the Seven Core ILO Conventions
(Constituting the ILO Declaration of Workers' Rights)
by the four East Asian Countries most seriously affected by the financial crisis
(as of November 1998)

Convention	C. 29	C. 87	C. 98	C. 100	C. 105	C.111	C.138
Country							
Indonesia	✓	✓	✓	✓	✍	✍	✍
Korea, Republic of				✓			
Philippines		✓	✓	✓	✓	✓	✓
Thailand	✓				✓		
✓ : has been ratified ✍ : Letter of Intent to ratify signed with ILO in December 1998. Commission V of the Parliament has since passed the Bill for the ratification of the Conventions in April 1999.							

- No. 29 : Forced Labour Convention, 1930
 No. 87 : Freedom of Association and Protection of the Right to Organize Convention, 1948
 No. 98 : Right to Organize and Collective Bargaining Convention, 1949
 No. 100 : Equal Remuneration Convention, 1951
 No. 105 : Abolition of Forced Labour Convention, 1957
 No. 111 : Discrimination (Employment and Occupation) Convention, 1958
 No. 138 : Minimum Age Convention, 1973

POLICY CONCLUSIONS

It is quite clear that the elimination of crony capitalism alone will not ensure against future risks of destabilisation of Indonesia's financial markets unless volatility in short-term capital market flows are brought under control through international cooperation.

The issue of curbing inflation would weigh heavily in the package of remedial measures to reduce poverty. The associated policy issue relates to the importance of maintaining subsidies on essential goods consumed by the poor.

A substantial chunk of the newly unemployed has suddenly flooded the informal sector. It calls for aggressive supportive as well as protective measures for both the new and the old informal sector workers primarily by ending hostile regulations and laws and harassment by petty law enforcement officials and through infrastructural and micro credit programmes.

While emergency employment schemes are important in any social safety net programme, it will only restore livelihoods to a small fraction of the huge pool of new jobless resulting from the crisis. Longer-term employment-based equitable and sustainable development strategies beyond the economic recovery programme tends to be neglected.

An assault on poverty has to comprehensively improve access of the poor, particularly of children from poor household, the correlates of poverty covering jobs, income supplements, food and health services.

Support e.g. microcredit should be widely extended to endure the sudden shock resulting in widespread sales of assets, rising tide of return migrants, mostly women, and the steep increase in the number of working poor toiling longer hours.

The costs of poverty-alleviation programmes are very high (e.g. requiring \$3 to transfer \$1 to the bottom 15% of the poor through the employment creation schemes) due to leakages in the institutional machinery responsible for implementing social safety net programmes. Furthermore, costs of labour-based programmes, though still very high, are a relatively lower drain on resources compared to the same income transfer brought about through food subsidy.

The arithmetic is astonishing. If the leakage in the social safety net programme delivery mechanism could be fully plugged, without adding an extra dollar to the programme the number of poor beneficiaries could be increased by four fold.

While it is important to engage an independent civil society social safety net monitoring machinery to safeguard the programme against leakages, organizing the individual civil society groups has turned out to be more complex than anticipated. Innovative and simplified and more practical approaches are needed which could involve the individual building blocks of the civil society.

Indeed, due to the urgency and the high speed with which the monitoring machinery needs to be made operational, it is practically more feasible in organizing and deploying segments of the civil society, e.g. trade unions. In the absence of such rapid and drastic solutions, demands for suspending social safety net programme funding, however legitimate, will only hurt the poor unjustly and more severely.

A recent nation-wide survey of subdistricts has reaffirmed the continued validity of the established developmental and economic recovery priorities of job creation and boosting income levels of the working poor as compared to the other components of the social safety net programme such as health, education and food security in both urban and rural areas. Food security appears to be a more acute problem in rural areas as a result of the crisis.

Although subjective expert evidence furnished from a survey of all the 4025 *kecamatan*s of Indonesia suggest that urban areas are relatively harder hit by the crisis, the gap in the impact between urban and rural populations is too narrow and nearly equally devastating, to permit analysts to engage in a futile debate on the meaningless marginal difference between the heights of the peaks of two gigantic mountains of human misery (Table 5).

The risk of such an unbalanced perspective is that social safety net programme will end-up targetting its entire pool of resources on the bigger giant (urban victims of the crisis) while completely ignoring the other smaller giant (rural population affected by the crisis) not much below its shoulder.

The very same expert respondents contradict themselves while delivering their subjective opinion on their perceptions of people's priority to the social impact of the crisis, when they systematically confirm that a far larger proportion of the rural population consider unemployment, loss of income and finding staple food as priority issues as compared to the proportion of the population in urban *kecamatan*s (Table 2).

Lessons have been learned from lost opportunities of social protection for workers retrenched due to the crisis. Serious reconsideration needs to be given to affordable unemployment insurance schemes for wage workers to protect them from future shocks of sudden and unexpected unemployment.

Indonesia has proven to the world that there can always be a silver lining to the financial crisis. Some relief can be brought to the consequent social suffering when the crisis triggers significant improvements in human rights.

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