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WP39

# WORLD EMPLOYMENT PROGRAMME RESEARCH

## Working Papers



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**WORLD EMPLOYMENT PROGRAMME RESEARCH**

**Working Paper No. 39**

**International Employment Policies**

**EMPLOYMENT PLANNING WITHIN  
THE CONTEXT OF ECONOMIC REFORMS:  
A CASE STUDY OF INDONESIA**

by

**Martin GODFREY**

*Working Papers are preliminary material circulated  
to stimulate discussion and critical comment*

**November, 1993**

**International Labour Office Geneva**

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## PREFACE

A large and increasing number of developing countries are currently carrying out economic reform programmes, typically encompassing stabilization measures (aimed primarily at reducing current account deficits in the balance of payments and fiscal deficits) or structural adjustment (reforms in micro- and macro-economic policies to ensure more efficient use of resources), or a combination of both. These stabilization and structural adjustment measures in most cases have been introduced following recommendations of the IMF and the World Bank, respectively.

The implementation of reform programmes carries implicit and explicit effects on the levels and composition of employment as a consequence of changed levels of labour demand in the economy. Through an analysis of reform policies and measures introduced and an assessment of their positive and negative effects on employment and poverty levels it would be possible to identify ways of better incorporating employment concerns in the economic reform process and promoting employment-intensive growth consistent with the aims of the reform.

To assist governments in ensuring that employment considerations are fully taken into account while planning for or implementing economic reforms the Employment Strategies Branch has undertaken a review of selected country experiences of which this study on Indonesia forms a part (the other studies cover Tanzania and Chile) to draw lessons from an analysis of how these countries have planned for and implemented reform programmes in terms of their effects on employment. More specifically these country studies cover two areas of investigation: (a) quantification of the implicit and explicit effects of the programme on employment, and (b) an evaluation of the performance of those bodies of government directly and indirectly responsible for employment considerations in government planning. Based on the results of the country studies a synthesis paper will be prepared which will suggest possibilities for a more analytical role for employment planners in the economic reform programme and identify specific interventions in policy formulation which could assist in mitigating the negative effects on employment and promote expansion of new productive employment consistent with the objectives of the reform programmes.

The present Working Paper by Martin Godfrey examines the effectiveness of government attempts in Indonesia to deal with the employment dimensions of the economic reform programme introduced after the collapse in oil prices in the early 1980s. The paper comes to the conclusion that the reform programme has been in general "employment friendly" and has had a positive overall impact on employment growth especially as regards labour-intensive manufactured exports. As regards the role of employment planners the paper suggests that while there is a lot of formal employment planning in terms of plan-writing going on there is far less evidence of effective planning of employment in the sense of devising and implementing policies to promote it. The study does not find any specific examples of changes in the reform programme derived from a concern with its impact on employment. Indeed employment has never been an explicit objective of the policy changes adopted and more an indirect effect of other objectives.

In evaluating the role of expatriate advisers and international agencies the study concludes that these projects have played a useful role in improving techniques of analysis and in planning and in raising issues for debate. Since, however, employment has never been an explicit policy objective and since some projects have worked behind the scenes, reporting directly to Ministers, it is more difficult to identify a direct influence on policy.

The study comes up with a number of specific recommendations for better use of existing labour market information for more effective employment planning especially through building up analytical capacity in key line ministries. The paper stresses the need to supplement the present emphasis on increasing the demand for labour with improving the quality of labour especially since the basis of Indonesia's comparative advantage will gradually change from cheap labour to educated and skilled labour.

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## I. INTRODUCTION

### **Employment Planning within the Context of Economic Reforms: A Case Study of Indonesia**

by Martin Godfrey<sup>1</sup>

This study addresses the question of whether and, if so, how the Indonesian government has incorporated employment objectives into its economic reform programme. After a summary, in chapter two, of the process of reform over the past ten years or so, chapter three examines the impact on various employment indicators of stabilization and structural adjustment measures taken as part of the reform programme. Chapter four, based on interviews in Jakarta in February 1993 with employment planners and policy makers, international agencies and projects, non-government organizations, academics and consultants, looks at the effectiveness of government attempts to deal with the employment dimensions of reform. Finally, chapter five summarizes the implications for technical assistance.

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<sup>1</sup> ILO Consultant. The assistance of the ILO office, Jakarta, in arranging my programme, and particularly of Christina Limurti who made the appointments, is gratefully acknowledged, as are (with the usual disclaimer) helpful comments from Ozay Mehmet, Rashid Amjad and ILO referees.



## II. ECONOMIC REFORM PROGRAMME

The early years of independence were disastrous for the Indonesian economy, based at that time almost entirely on primary products. Mismanagement and political posturing by the Sukarno government resulted in a fall in real income per head between 1950 and 1966, widening balance-of-payments deficits, a fall in government revenue, increased budget deficits and foreign debt, spiralling inflation (at an annual rate of over 650 per cent towards the end of the period), and mushrooming regulations.

The New Order government, which came into power in 1966, headed by President Suharto and advised by a team of US-trained technocrats, set about stabilizing the economy and restoring external balance, and had to a large extent succeeded by 1969. Then came the Opec oil price revolution of 1973, which quadrupled the price of Indonesia's oil exports. The oil boom was relatively well managed. Although inflationary pressures increased and the high value of the rupiah caused problems for non-oil exports, oil revenues were used to fund a wide range of development projects, many of them in rural areas, to the benefit of public services, industrial and agricultural infrastructure, construction, transport and communications. As a result, real GDP grew at an annual rate of 8 per cent between 1974 and 1981.

The slump in the oil price from 1981 onwards was a serious threat to the Indonesian economy. 1982 saw a huge balance-of-payments deficit, a slump in domestic demand and, once again, a fall in real income per head. As the oil market continued to weaken, a wide-ranging programme of economic reforms was initiated, aimed at stabilization and structural adjustment of the economy. This programme has had three dimensions: an increasingly strict fiscal policy; changes in factor prices towards their market levels; and deregulation and institutional reform. This chapter looks briefly at each of these in turn.

### 1. Government fiscal policy

On the face of it, government fiscal policy appears to have been unchanged since the early 1980s. The commitment to a balanced budget has been scrupulously maintained throughout, as Table 1 shows.

Table 1: Central Government Budget, 1982/3 - 1991/2, at Current Prices

(Rp '000 mn)	1982/3	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9	1989/90	1990/91	1991/2
Total government routine & development expenditure	14,356	18,311	19,381	22,825	21,891	26,959	32,990	36,575	42,873	50,453
Total government receipts	14,358	18,315	19,384	22,825	21,893	26,961	32,995	36,575	42,873	50,453
Balance	(2)	(4)	(3)	0	(2)	(2)	(5)	0	0	0

Source for this and subsequent tables: Nota Keuangan dan Rancangan.

However, this "balance" does not mean that the impact of the budget on domestic incomes and employment has been consistently neutral. For one thing, only part of government expenditure<sup>2</sup> has such domestic impact. If external debt servicing and external expenditures are excluded from the total, we get the figure described in Table 2 as "domestic expenditure" - the injection of government spending into the circular flow of income.

Table 2: Central Government Domestic Expenditure, 1982/3 - 1991/2, at Current Prices

(Rp '000 mn)	1982/3	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9	1989/90	1990/91	1991/2
Total government expenditure	14,356	18,311	19,381	22,825	21,891	26,959	32,990	36,575	42,873	50,453
minus external debt service	1,205	2,073	2,737	3,323	5,058	6,765	10,648	12,237	12,984	13,864
external expenditure	80	116	121	140	183	214	242	297	342	396
Domestic expenditure	13,071	16,122	16,523	19,362	16,650	19,980	22,100	24,041	29,547	36,193

But the impact of the budget does not depend only on the expenditure side. Revenue, and how it is raised, also has to be taken into account. Again, only part of government revenue is relevant to this calculation - the part that is raised domestically. Revenues which accrue to government without a sacrifice on the part of domestic households and firms do not represent withdrawals from the circular flow of income and should be excluded from the calculation. In Indonesia's case such revenues include project and programme aid and, we would argue, revenue raised from oil companies, paid in dollars as a windfall gain from world price improvements. Exclusion of such revenues yields the figure described as "domestic revenue", the "bite" of the budget on the revenue side<sup>3</sup>, in Table 3.

Table 3: Central Government Domestic Revenue, 1982/3 - 1991/2, at Current Prices

(Rp '000 mn)	1982/3	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9	1989/90	1990/91	1991/2
Total government revenue	14,358	18,315	19,384	22,825	21,893	26,961	32,995	36,575	42,873	50,453
minus aid receipts	1,940	3,882	3,478	3,573	5,752	6,158	9,991	11,325	8,404	12,732
oil companies' corporation tax	8,170	9,520	10,430	11,145	6,338	6,939	8,856	7,900	10,783	9,835
Domestic revenue	4,248	4,913	5,476	8,107	9,803	13,864	14,148	17,350	23,686	27,886

<sup>2</sup> In Indonesia total government current and development expenditure is equivalent to about one third of gross domestic product.

<sup>3</sup> Glassburner and Nasution (1987:56).

If "domestic revenue" is subtracted from "domestic expenditure" it yields a measure of the net impact of the government budget on domestic incomes and employment. In Table 4 this is described as "net domestic impact", and is shown first at current and then at constant 1982 prices<sup>4</sup>.

Table 4: Net Domestic Impact of Government Budget, 1982/3 - 1991/2, at Current and at Constant 1982 Prices

(Rp '000 mn)	1982/3	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9	1989/90	1990/91	1991/2
At current prices:										
Domestic expenditure	13,071	16,122	16,523	19,362	16,650	19,980	22,100	24,041	29,547	36,193
Domestic revenue	4,248	4,913	5,476	8,107	9,803	13,864	14,148	17,350	23,686	27,886
Net domestic impact	8,823	11,209	11,047	11,255	6,847	6,116	7,952	6,691	5,861	8,307
At constant prices:										
Domestic expenditure	13,071	14,753	13,688	15,316	12,446	13,604	13,707	13,582	15,205	16,966
Domestic revenue	4,248	4,495	4,536	6,414	7,328	9,440	8,775	9,802	12,189	13,072
Net domestic impact	8,823	10,258	9,152	8,902	5,118	4,164	4,932	3,780	3,016	3,894

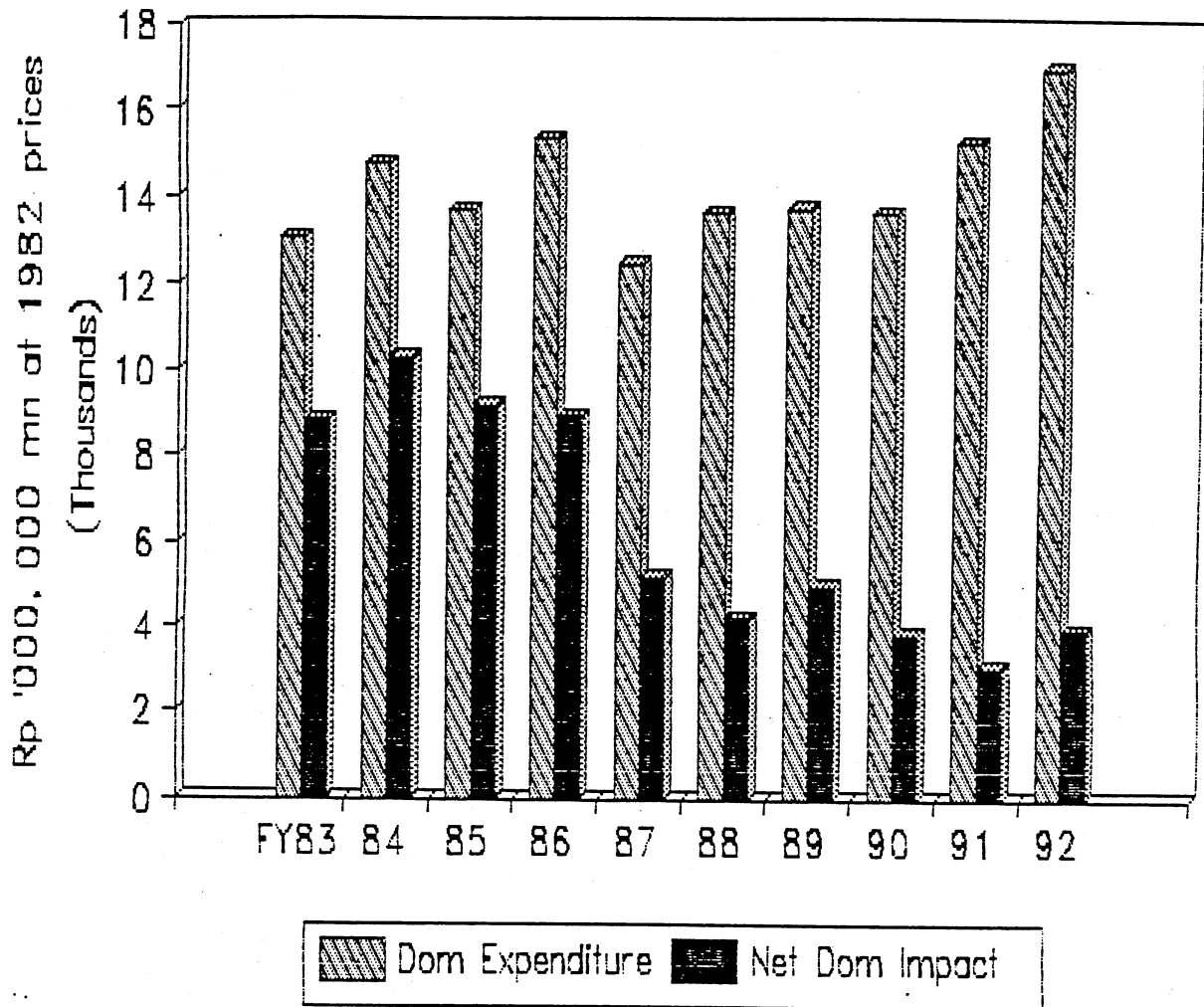
Several things are clear from this Table. One is the extent to which the balanced budget policy has not been neutral as far as the domestic economy is concerned. Net injections into the circular flow of income have been considerable, amounting in some years to almost 70 per cent of government spending. Moreover, as Glassburner and Nasution (1987) point out, such injections have been pro-cyclical. When oil revenues rise, the balanced budget convention means that government expenditure has to rise in parallel<sup>5</sup>; when they fall, government spending has to be cut.

The Table also shows that the contrast between the current (1990/1 and 1991/2) budgetary situation and that of a few years ago is much greater if we look at net domestic impact than if we merely look at domestic expenditure. Estimated domestic expenditure in 1991/2 was actually higher in real terms (by 16 per cent) than in 1983/4. But the net domestic impact is down by 62 per cent over the same period. Figure 1 illustrates the difference in trends in the two measures. This means that government budgets have become much more deflationary than they were at the beginning of the reform programme. Almost imperceptibly, the net domestic impact of the budget has been drastically reduced.

<sup>4</sup> Deflated by the consumer price index for 17 cities.

<sup>5</sup> As Glassburner and Nasution (1987:56) put it, the use of oil company taxes to finance domestic expenditures during the 1970s was as inflationary as conventional deficit financing of those expenditures".

FIG 1: GOVERNMENT BUDGET: NET DOMESTIC IMPACT COMPARED WITH DOM EXPENDITURE



## 2. Policies on factor pricing

An important component of the Indonesian economic reform programme has been "getting factor prices right". This has involved, among other things, raising interest rates, devaluing the rupiah and allowing real wages to fall. Table 5 shows what has happened to some key factor prices since 1983.

Table 5:  
Factor Price Trends, 1976 - 1991

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Interest Rate (Nominal) %	6	16	18	15	17	18	19	17	23
Rate of Increase in CPI %	12	10	5	6	9	8	6	7	9
Interest Rate (Real) %	-6	6	13	9	8	10	13	10	14
Real Effective Exchange Rate Index (1985 = 100)	...	...	100	76	58	56	57	54	56
Real Producer Wages Agr (1983 = 100)	100	104	114	111	108	103	109	109	110
Real Producer Wages Ind (1983 = 100)	100	113	116	107	101	99	101	102	...

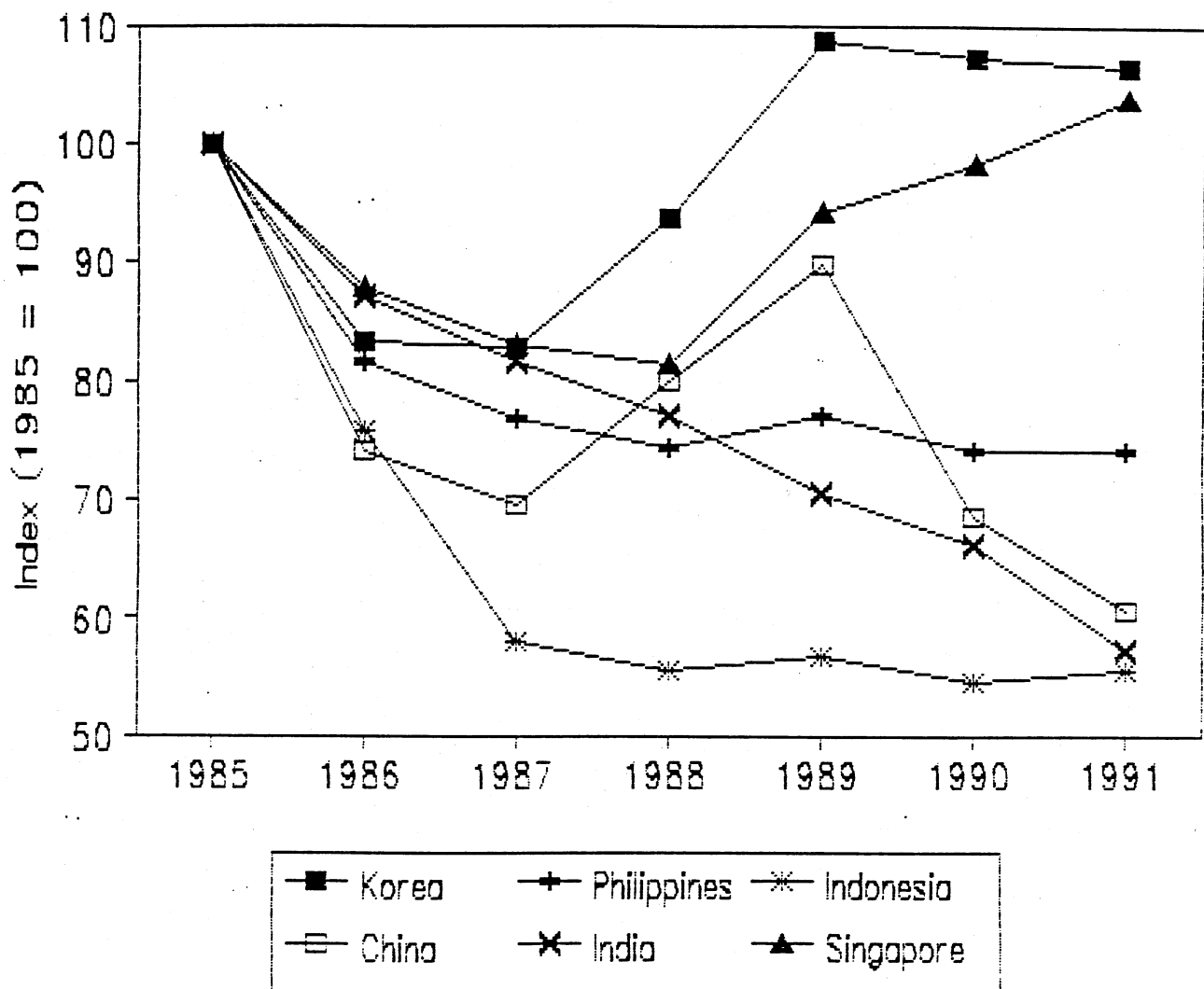
Notes:

Interest rate (nominal) is the commercial bank deposit rate (IMF IFS, line 601); CPI is for 17 cities (IMF IFS, line 64); interest rate (real) is interest rate (nominal) deflated by the CPI; the real effective exchange rate is a trade-weighted exchange rate adjusted for relative inflation (Asian Development Bank, Asian Development Outlook 1992, Table A22); real producer wages agriculture is an unweighted index of agricultural wages for planting, weeding and hoeing in East, West and Central Java, deflated by the producer price index for the farmers who employ them (BPS); real producer wages industry is an index of the unweighted mean of average wages in manufacturing (from BPS Survei Upah Buruh), deflated by the wholesale price index for the manufacturing sector (BPS).

As can be seen, interest rates took a sharp upward turn in 1984, following a major reform of the financial sector in June 1983. Since the rate of price inflation also turned down at about the same time, bank depositors have enjoyed positive real interest rates for several years. One factor in this has been the authorities' determination to maintain an open capital account. Thus the supply price of capital to the Indonesian economy has been set by international interest rates (high over this period) plus premia for domestic inflation and (more important) for devaluation and other political risks. Since, on top of this, intermediation costs are relatively high (adding 7 to 8 percentage points to state banks' interest rates, for instance), both nominal and real rates to borrowers have been extremely high over this period. Also, since 1991 monetary policy has been tightened, in an attempt to reduce inflationary pressures, and interest rates have been given a further boost.

At the same time, the rupiah has undergone a steady devaluation since 1983. More important, since Indonesian prices have been rising at a relatively moderate rate, this has been a real devaluation. Table 5 shows the extent of the real effective devaluation of the rupiah, by 44 per cent since 1985. Even more important, as illustrated by Figure 2, is the extent to which Indonesia stands out from some of its neighbours and trade rivals in this respect.

Figure 2: Real Effective Exchange Rates, Selected Asian Economies, 1985-91



One cannot, of course, tell from such a picture which currencies are undervalued and which overvalued. What can certainly be inferred is that Indonesia's competitive position has improved substantially since the mid-1980s, when it achieved the largest real effective devaluation of all Asian countries. Only India, of the countries represented in Figure 2, achieved anything comparable.

Since 1985, as Table 5 shows, there have been fluctuations in both agricultural and industrial real wages (deflated by producer prices), but the general tendency has been stagnant or slightly downward. Employers in both sectors have apparently still been facing an unlimited supply of labour at a more or less constant real wage.

If the effects of wage and price restraint, productivity increase and devaluation are put together, they have put Indonesia at an increasing advantage in international markets for labour-intensively produced goods, as Table 6 and Figure 3, on trends in real \$ wage cost per unit of manufacturing output, show. As can be seen, unit labour cost fell faster in Indonesia than in any of the other countries in the Figure between 1985 and 1988, although China and India have closed the gap since then.

Table 6: Real \$ Wage Cost per Unit of Manufacturing Output, Selected Asian Economies, 1985 - 90 (Index: 1985 = 100)

	1985	1986	1987	1988	1989	1990
China	100	76	65	71	77	47
India	100	89	79	69	59	
Indonesia	100	66	46	44	50	48
Korea, Rep.	100	81	90	109	155	163
Philippines	100	85	91	95	110	
Singapore	100	81	80	80	96	

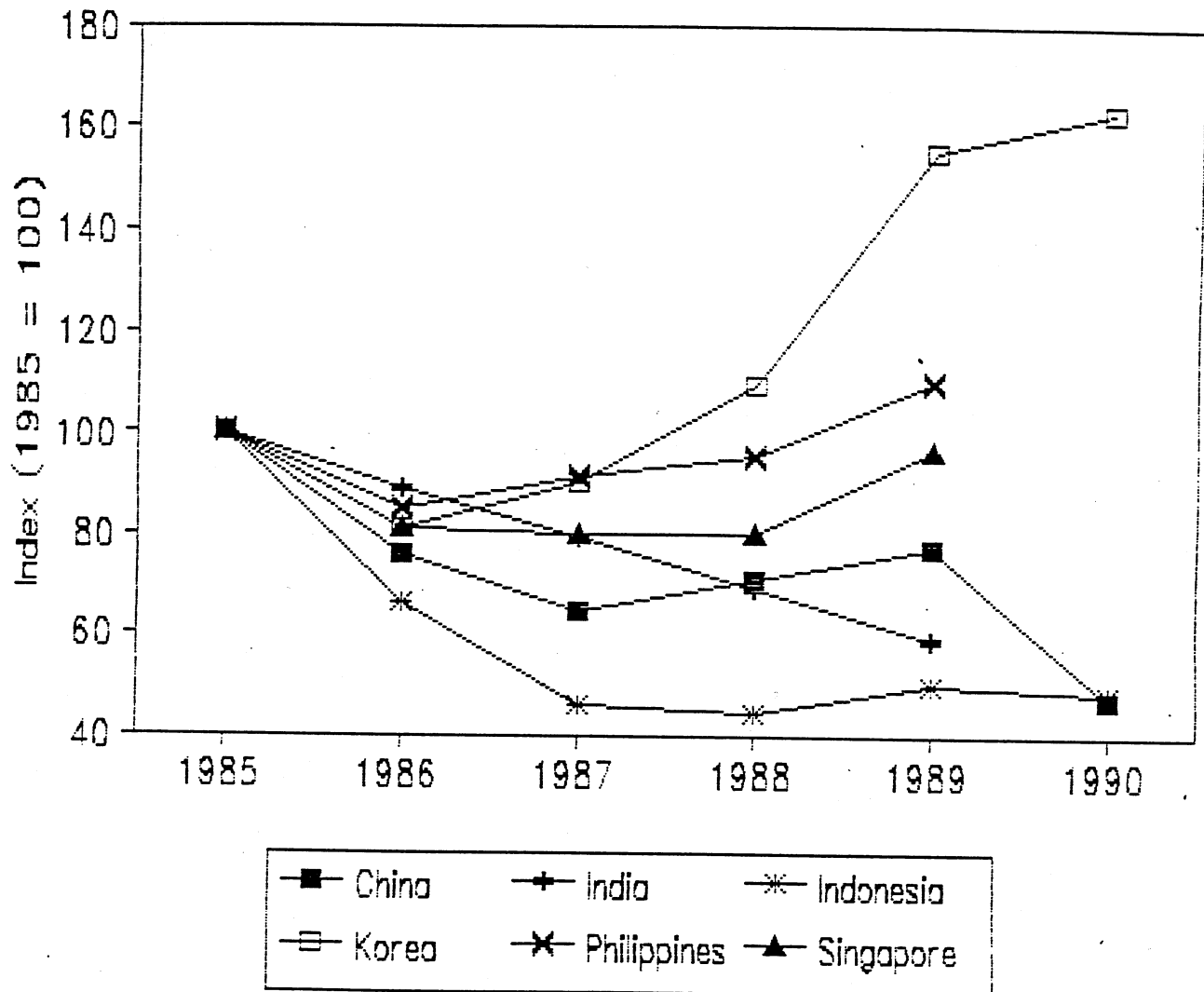
Note: Real \$ wage cost per unit of manufacturing output = real wage in manufacturing multiplied by real effective exchange rate divided by value added per worker.

Sources: Wages: ILO Yearbook of Labour Statistics and Bulletin of Labour Statistics; Labour Bureau, Ministry of Labour, Government of India, Indian Labour Journal; Biro Pusat Statistik, Jakarta, Indonesia; Survei Upah Buruh. Prices: Implicit GDP deflators for manufacturing sector from Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries, 1992. Real effective exchange rates: ADB, Asian Development Outlook, 1992.

### 3. Deregulation and institutional reform

Since 1983 a process of deregulation has gathered speed. Successive "packages" have reshaped the banking and financial system, customs arrangements, tax laws, protection against imports, import monopolies, licensing of investment and production, sea communications and state enterprises.

Figure 3: Real \$ Wage Cost per Unit of Manufacturing Output, 1985-90





Central bank interference in credit implementation was reduced in 1983, and state banks were given more room for manoeuvre, but the financial system had to wait five more years for full-scale deregulation. In October 1988 the banking system was thrown open to new banks, with a minimum paid-up capital of only Rp 10,000 million; existing foreign and joint-venture banks, and non-bank financial institutions, were given permission to open branches in seven major cities; and new foreign banks were allowed to enter the banking business, through joint ventures with domestic private banks if desired. The requirement that state banks should deposit funds only with state banks was relaxed; 50 per cent of any enterprise's funds could now be deposited with private banks. The imposition of a 15 per cent tax on bank deposits removed tax discrimination against capital market investors. Another package, in December 1988, increased the possibility of foreign participation in a further deregulated capital market.

Also, in January 1990, came the announcement of the phasing out of liquidity credits (highly subsidized credits to high-priority sectors, such as food crops, small investments, exports, food stockpiling and low-cost housing development). Such credits were described by the Finance Minister as having "distorted the financial market, caused inefficient allocation of resources and prompted credit abuse" (Jakarta Post, 30 January 1990).

The impact of financial deregulation was phenomenal. Tight monetary conditions, and the introduction of much-needed prudential regulations in March 1991, have slowed growth since 1990, but commercial bank assets still grew at an annual rate of 28 per cent between 1988 and 1991, and their number increased from 111 to 185. The financial difficulties of Summa Bank, owned by the son of the founder of the huge Astra conglomerate, in 1992, sent shock waves through the banking and business communities, but efforts at damage limitation so far appear to have been successful (Tomich 1992:6).

Perhaps the most surprising and sweeping deregulation measure taken so far was the transfer, in 1985, of the responsibility for customs on international trade from the Directorate General of Customs and Excise of the Department of Finance to the Swiss-based multinational corporation, SGS. Although expensive and not without its problems, this arrangement has resulted in faster clearance and elimination of corruption.

Also impressive were the 1984/5 tax reforms, which removed a whole range of special incentives and discretionary exemptions. Tax rates were limited to three, with the highest at 35 per cent, and a system of "self assessment" by taxpayers was introduced, with a reduced level of official interference. However, a wide range of investment incentives is still offered, including exemption from import duties on plant, machinery and equipment, whether new, second-hand or refurbished, which represent clear subsidies to capital (Mehmet and Bengo-Teku 1993).

A series of packages, starting in 1986, has substituted tariffs for quantitative restrictions and non-tariff barriers to international trade: the proportion of domestic production protected by non-tariff barriers fell from 41 per cent in 1986 to 22 per cent in 1991. At the same time the average tariff rate has been falling: weighted by import value, it was down to 10 per cent in 1991, compared with 22 per cent before 1985. In July 1992 a further package deregulated more categories of imports, mostly batik textiles

and a few food and minor feed items, reduced or eliminated about two thirds of existing tariff surcharges, and simplified procedures for importing used machinery and other capital good/s (Tomich 1992:3-4).

Since 1986 exporters have, in any case, been allowed to import their inputs free of duties and to by-pass quantitative import restrictions, under the duty exemption and drawback facility. This has apparently worked well, and the number of firms using the scheme has increased rapidly, while the processing time for applications has fallen significantly. More recently steps have been taken to dismantle the system of import monopolies for some state corporations in certain products.

Requirements for licensing of investment and production have been reduced and simplified since 1984. By July 1988 it was estimated that the time taken for processing of land and building licences (required for land allocation, acquisition, use and certification, for building and under the public nuisance act) had fallen to 213 days, compared with 515 days two years earlier (Jakarta Post, 19 July 1988). In 1989 a long list of activities open to new investors was replaced by a short list of activities that were closed, and another package in 1991 virtually confined the negative list to service activities such as advertising, retail trading, radio and television broadcasting and some transport services.

Policy towards foreign investment has also become less restrictive. Ownership controls on investment in export-oriented and other priority areas have been eased. The period for conversion to domestic majority ownership has been extended. Foreign investors' access to export credit and marketing assistance has been improved, and they are now allowed to take over domestic firms provided that the investment is in a priority area and 20 per cent of the equity remains under domestic ownership. Since July 1992 procedures for foreigners to obtain work permits have been streamlined, and foreign joint ventures have been allowed to obtain land use permits for up to thirty years, with the possibility of extensions for a further twenty-five years (Tomich 1992:4).

Two packages, in 1985 and 1988, have increased the efficiency of maritime transport. Procedures for setting up shipping corporations, using foreign vessels and docking and repair have been simplified. With ship owners now able to fix their own routes and travel agents able to operate tourist ships, the government has become a residual operator.

A series of three decrees between October 1988 and June 1990 have established a framework for the government's efforts to improve the efficiency and financial soundness of state enterprises. The 189 enterprises have been classified into four categories, on the basis of recent performance: very sound, sound, less sound and unsound. Seven options have been identified for loss-making state enterprises: (1) change of legal status; (2) sale of stock on the capital market; (3) direct placement of stock; (4) consolidation or merger; (5) sale of company to a third party; (6) establishment of a joint venture; (7) liquidation. Within this framework, seventeen state enterprises were reported by mid-1992 to have changed to a more commercial legal status, one had issued shares publicly while another had been privately placed, five enterprises had merged and fourteen had been liquidated. This improved system of accountability and control, together with the wider deregulation

process, has cut the overall budgetary burden represented by state enterprises, but their profitability remains well below any acceptable commercial norm (Hill 1992:22).

Impressive as the deregulation process has been, anomalies remain, and the instinct to deal with a problem by reaching for a new regulation has not been entirely suppressed. For instance, under the Small Enterprise Scheme, introduced in January 1990, all banks must lend at least 20 per cent to small enterprises (firms with assets of no more than Rp 600 million). Although the bans on the export of timber, rattan and leather were lifted in 1992, they were replaced by extremely high export taxes. Non-tariff barriers still cover various industrial products and a large part of agricultural value added and trade. A tendency towards regulation of trade by provincial governments has recently been noted (Hill 1992:20). The tax system still offers pro-capital subsidies to investors.

Deletion programmes persist in several industries, designed gradually to reduce the number of parts that can be imported for assembly. Not all farmers are able to choose freely which crops to plant: as well as rice, in some areas they are required to plant sugar, in rotation, to feed (inefficient) local sugar mills. The clove marketing monopoly, established in December 1990, has been spectacularly mismanaged, to the detriment of both farmers and the kretek cigarette manufacturers. Although investment licensing has been relaxed there is still a large number of restricted-entry sectors and of activities limited to small domestic entrants. Local-level licensing procedures are still lengthy. Syahrir (1990:Part II,2B) reports that "at the regional level there are tremendous problems facing possible investors", arising from the fact that investors, old and new, are the prime target for funding of provincial governments. Although sea transport has been reformed, road transport regulations are still overly restrictive and unevenly applied, making costs significantly higher than necessary. And the process of reforming state enterprises has a long way to go.

There are still doubts, also, about the transparency of procedures for awarding contracts and regulating business (as in the cases of the clove monopoly, orange marketing arrangements, and television licence fee collection<sup>6</sup>) and about occasional eccentricities in economic policy, such as the pressure exerted on large firms to sell shares to cooperatives<sup>7</sup>. In short, although progress has been impressive, there is still some way to go before Indonesia completely sheds its old reputation as a difficult and dangerous place for unwary businessmen.

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<sup>6</sup> See Hill (1992:23-24) for further discussion.

<sup>7</sup> See Asian Wall Street Journal, 3 July 1990.

### III. THE IMPACT ON EMPLOYMENT

There is no doubt about the success of the Indonesian economic reform programme. Real GDP grew at an annual average rate of about 7 per cent between 1987 and 1991, the current account deficit was cut from 8 per cent of GNP in the early 1980s to 4 per cent by 1992, the overall public sector deficit was reduced from over 4 per cent in 1983 to less than 1 per cent in 1991, the inflation rate was held to below 10 per cent and fell to around 3 per cent in 1992, and the debt service ratio declined from 40 per cent in 1986 to 30 per cent in 1992. A revolution in land transportation turned Java virtually into a single urban area. Non-oil exports grew particularly fast and by 1991/2 were estimated to account for 64 per cent of total exports, compared with 21 per cent nine years earlier.

Within non-oil exports manufacturing exports performed especially well, and, as Table 7 shows (and as might be expected from the trends in real \$ wage cost per unit of manufacturing output already discussed), a wide range of labour-intensive exports has emerged, with textiles, clothing and footwear recording the most spectacular growth.

Table 7: Major Manufactured Exports, 1980 - 91  
(\$ million)

	1980	1985	1989	1990	1991
Labour-Intensive	297	807	3,073	4,634	6,814
(% of total)	(59)	(39)	(44)	(51)	(58)
Clothing	98	339	1,170	1,646	2,265
Fabrics	43	227	727	1,132	1,552
Yarn	3	13	112	109	204
Footwear	1	8	220	570	994
Electronics	97	81	123	204	403
Furniture	3	7	167	286	385
Toys/sporting gds	n	n	21	57	142
Glass & products	3	8	77	80	91
Oils & perfumes	21	23	32	60	94
Resource-Intensive	119	992	2,838	3,324	3,488
(% of total)	(24)	(49)	(40)	(37)	(30)
Plywood	68	941	2,414	2,791	3,034
Cement & products	26	22	133	100	48
Leather	6	8	69	64	46
Capital-Intensive	85	245	1,107	1,083	1,514
(% of total)	(17)	(12)	(16)	(12)	(13)
Fertiliser	35	80	164	193	297
Paper & products	5	21	166	154	266
Steel products	8	28	343	188	249
Rubber tyres	n	7	65	66	58
Total	501	2,044	7,018	9,041	11,816

Source: Hill (1992)

The employment situation at the beginning of the reform programme was, thanks to the oil-revenue-funded development projects, much better than it had been ten years earlier, but there were still problems. In particular, there was still surplus labour in rural Java, in the sense of more people able and willing to work in rice cultivation at the going

wages than could be employed, both during peak and off seasons (Lluch and Mazumdar 1985). The usual range of labour legislation was in place: minimum wage regulations, based on calculations of "minimum physical needs", and employment security regulations, laying down procedures for agreement, arbitration and compensation in the case of lay-offs. However, the number of labour inspectors was too few to ensure more than partial implementation of such legislation.

The impact of the reform programme on employment is difficult to judge. The usual labour force survey measures shown in Table 8, are not very illuminating. As can be seen, with the unemployment rate never rising above 3 per cent in the 1982-90 period, the number working has been largely supply-determined and has grown at the same rate as the population in the economically active age group. Thus inspection of total employment series tells us nothing about what is happening in labour markets.

TABLE 8: POPULATION 10 YEARS OLD AND OVER, BY KIND OF ACTIVITY DURING PREVIOUS WEEK, INDONESIA, 1982 - 1990 (million)

	1982	1986	1987	1988	1989	1990	1982-90	1986-90
LABOUR FORCE	59.6	70.2	72.2	74.6	76.1	77.8	3.4%	2.6%
of whom:								
Working	57.8	68.4	70.4	72.5	73.9	75.9	3.5%	2.6%
of whom:								
employer/self-emp	11.8	14.9	15.3	15.3	14.6	15.5	3.5%	1.0%
employer + helper	13.5	15.8	15.4	16.7	17.0	17.9	3.6%	3.3%
employee	19.1	17.6	18.7	18.7	19.5	21.1	1.2%	4.6%
family worker	13.4	20.0	21.0	21.8	22.9	21.3	6.0%	1.7%
Job Seeking	1.8	1.9	1.8	2.1	2.2	2.0	1.0%	1.2%
NOT IN LABOUR FORCE	50.8	52.3	53.6	54.8	55.6	57.9	1.6%	2.6%
of whom:								
at school	22.7	26.4	27.6	28.6	30.0	28.7	3.0%	2.1%
housekeeping	20.4	17.6	17.6	17.3	17.2	20.1	-0.2%	3.3%
other	7.7	8.3	8.4	8.8	8.4	9.2	2.2%	2.5%
TOTAL	110.4	122.6	125.9	129.4	131.7	135.7	2.6%	2.6%
UNEMPLOYMENT RATE	3.0%	2.6%	2.5%	2.8%	2.9%	2.5%		
(% of total)								
LABOUR FORCE	54.0%	57.3%	57.4%	57.6%	57.8%	57.3%		
of whom:								
Working	52.3%	55.8%	55.9%	56.0%	56.1%	55.9%		
of whom:								
employer/self-emp	10.6%	12.2%	12.2%	11.8%	11.1%	11.4%		
employer + helper	12.3%	12.9%	12.2%	12.9%	12.9%	13.2%		
employee	17.3%	14.4%	14.8%	14.5%	14.8%	15.5%		
family worker	12.1%	16.3%	16.7%	16.8%	17.4%	15.7%		
Job Seeking	1.6%	1.5%	1.5%	1.6%	1.7%	1.4%		
NOT IN LABOUR FORCE	46.0%	42.7%	42.6%	42.4%	42.2%	42.7%		
of whom:								
at school	20.5%	21.5%	22.0%	22.1%	22.8%	21.1%		
housekeeping	18.5%	14.4%	14.0%	13.4%	13.0%	14.8%		
other	7.0%	6.8%	6.6%	6.8%	6.4%	6.8%		
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		

Sources: BPS, Labour Force Survey.

The most significant figure in the table is the annual average growth rate of nearly 5 per cent recorded by wage employment<sup>8</sup> over the 1986-90 period - a sure sign of an improvement in the economy's demand for labour. Table 9 breaks down the growth by sector.

TABLE 9: WAGE EMPLOYMENT BY SECTOR, 1986 AND 1990

	1986 ( '000 )	1990 ( '000 )	1986-90
			ANN AV RATE OF GROWTH (%)
AGRICULTURE, FORESTRY ETC	3,531	4,876	8.4%
MANUFACTURING	3,105	4,296	8.5%
TRADE & RESTAURANTS	789	1,169	10.3%
PUBLIC SERVICES	7,283	7,300	0.1%
OTHER	2,872	3,435	4.6%
TOTAL	17,580	21,076	4.6%

SOURCE: BPS, LABOUR FORCE SURVEY, 1986 AND 1990

Unfortunately the maximum disaggregation allowed by the 1986 survey's classification of sectors is five<sup>9</sup>, but the table shows the very fast growth of wage employment in agriculture and manufacturing and the even faster growth in trade and restaurants, partly derived from growth in other sectors, partly reflecting the rapid expansion of international tourism. Female wage employment grew significantly faster than male during the eighties - rising from 27 per cent of the total in 1980 to 31 per cent in 1990.

For a more detailed sectoral breakdown it is necessary to go to the census series (not the ideal source of data about labour markets). Table 9A shows how total and wage employment changed between 1980 and 1990.

Once again total employment is largely supply-determined, growing at around the same annual rate as the labour force. The sectors with the highest growth rates in total employment are not necessarily the most dynamic, as far as demand for labour is concerned. Wage employment, a better indicator for this purpose, grew much faster during the 1980s, with manufacturing, construction and trade the most dynamic of the larger sectors. A puzzling contrast with the labour force series of Table 9 is the fact that agriculture has been the sector of slowest wage employment growth. In general, the data are consistent with the hypothesis that the reform programme has been employment-friendly.

<sup>8</sup> The labour force survey's figures on wage employment are assumed to be more reliable than those on other employment status categories.

<sup>9</sup> Since increased to seventeen.

TABLE 9A: EMPLOYMENT BY SECTOR AND EMPLOYMENT STATUS,  
1980 and 1990

	Total Employment			Wage Employment		
	1980	1990	% Change	1980	1990	% Change
	('000)	('000)	P.A.	('000)	('000)	P.A.
Agriculture	28,040	35,931	2.5%	4,359	5,578	25%
Mining	369	766	7.6%	130	658	176%
Manufacturing	4,361	8,340	6.7%	2,191	5,820	103%
Electricity	85	158	6.4%	63	139	82%
Construction	1,573	2,886	6.3%	955	2,027	78%
Trade	6,611	10,754	5.0%	560	1,416	97%
Transport	1,468	2,703	6.3%	747	1,382	63%
Bank & Finance	232	545	8.9%	200	516	99%
Other Services	7,787	9,901	2.4%	4,752	7,737	50%
Not Stated	666	-		132	-	
<b>Total</b>	<b>51,192</b>	<b>71,984</b>	<b>3.5%</b>	<b>14,089</b>	<b>25,273</b>	<b>60%</b>

SOURCE: POPULATION CENSUSES

However, the best guide to what is happening in labour markets is provided by wage data, which are available for various sectors. Table 10 shows data from the BPS Farmers' Terms of Trade Survey on agricultural wages and prices in three of the fourteen provinces covered by the survey - Central, East and West Java.

TABLE 10: NOMINAL AND REAL WAGES IN FOOD AGRICULTURE, CENTRAL, EAST  
AND WEST JAVA, 1976 - 1992

CENTRAL JAVA

	NOMINAL WAGES			PRICE INDICES			REAL WAGES			REAL WAGES		
	INDEX (1983 = 100)			INDEX (1983=100)			INDEX (1983 = 100)			INDEX (1983 = 100)		
	HOING PLANT- WEED-			FOOD PROD-			DEFLATOR = FOOD P			DEFLATOR = PROD P		
	ING	ING	ING	UCER	ING	ING	ING	ING	ING	ING	ING	
1976	32.9	32.5	34.8	37.4	29.8	88.0	86.7	93.0	110.3	108.8	116.7	
1977	37.6	38.0	38.8	40.2	32.4	93.4	94.5	96.5	115.9	117.3	119.7	
1978	42.2	40.9	43.5	42.4	34.2	99.6	96.5	102.7	123.4	119.5	127.2	
1979	49.1	46.9	49.3	50.3	41.8	97.6	93.4	98.0	117.3	112.3	117.8	
1980	58.8	56.4	59.5	60.3	51.1	97.5	93.6	98.6	114.9	110.4	116.2	
1981	75.5	71.7	72.9	71.7	58.8	105.3	100.0	101.7	128.5	122.1	124.0	
1982	85.7	83.4	83.8	81.2	71.0	105.5	102.7	103.2	120.7	117.4	118.0	
1983	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1984	115.3	116.6	114.9	111.7	116.8	103.3	104.4	102.9	98.7	99.8	98.4	
1985	132.0	131.0	132.8	110.3	123.1	119.7	118.7	120.4	107.3	106.5	107.9	
1986	147.2	146.5	149.3	123.4	134.8	119.3	118.7	120.9	109.2	108.7	110.7	
1987	166.4	165.7	167.4	142.0	156.4	117.1	116.6	117.9	106.4	105.9	107.0	
1988	176.5	179.6	178.6	160.7	179.2	109.8	111.8	111.1	98.5	100.3	99.7	
1989	193.5	199.0	193.5	172.8	186.2	112.0	115.2	112.0	103.9	106.9	103.9	
1990	213.5	222.0	212.9	183.7	201.0	116.2	120.8	115.9	106.2	110.4	105.9	
1991	233.8	239.5	230.6	204.6	224.0	114.3	117.0	112.7	104.4	106.9	102.9	
1992	272.5	277.0	261.0	214.2	227.3	127.2	129.3	121.8	119.9	121.8	114.8	

## EAST JAVA

	NOMINAL WAGES			PRICE INDICES			REAL WAGES			REAL WAGES			
	INDEX (1983 = 100)			(1983=100)			INDEX (1983 = 100)			INDEX (1983 = 100)			
	HOEING	PLANT-	WEED-	FOOD PROD-	UCER	HOEING	PLANT-	WEED-	HOEING	PLANT-	WEED-	HOEING	PLANT-
	ING	ING				ING	ING		ING	ING		ING	ING
1976	25.9	28.9	27.4	34.0	29.5	76.2	85.2	80.8	87.8	98.1	93.0		
1977	29.8	30.5	31.2	37.4	32.0	77.0	81.5	83.2	90.0	95.3	97.3		
1978	32.3	32.5	33.1	40.8	34.1	79.2	79.6	81.1	94.6	95.1	96.9		
1979	37.5	37.7	37.8	49.9	42.0	75.2	75.6	75.9	89.2	89.7	90.0		
1980	46.7	50.0	49.6	59.0	50.7	79.2	84.8	84.0	92.2	98.6	97.7		
1981	60.0	64.6	65.2	69.8	56.9	86.0	92.7	93.4	105.4	113.6	114.5		
1982	74.2	79.9	79.2	80.4	69.2	92.4	99.4	98.5	107.3	115.5	114.5		
1983	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
1984	117.6	120.0	118.8	108.8	110.8	108.1	110.3	109.2	106.1	108.4	107.2		
1985	134.5	130.3	127.6	104.1	109.7	129.2	125.2	122.5	122.6	118.8	116.3		
1986	145.3	138.4	135.1	115.0	127.7	126.3	120.4	117.5	113.7	108.4	105.8		
1987	156.9	151.9	148.7	132.7	147.5	118.2	114.5	112.0	106.3	103.0	100.8		
1988	169.4	165.8	160.3	149.2	165.9	113.5	111.1	107.5	102.1	99.9	96.6		
1989	185.1	181.5	174.0	160.6	166.6	115.2	113.0	108.3	111.1	109.0	104.4		
1990	204.2	201.0	194.9	172.2	180.8	118.6	116.7	113.2	112.9	111.2	107.8		
1991	231.3	230.9	224.0	188.9	200.4	122.5	122.2	118.6	115.4	115.2	111.8		
1992	267.1	264.7	260.0	194.6	204.8	137.2	136.0	133.6	130.4	129.3	127.0		

## WEST JAVA

	NOMINAL WAGES			PRICE INDICES			REAL WAGES			REAL WAGES			
	INDEX (1983 = 100)			(1983=100)			INDEX (1983 = 100)			INDEX (1983 = 100)			
	HOEING	PLANT-	WEED-	FOOD PROD-	UCER	HOEING	PLANT-	WEED-	HOEING	PLANT-	WEED-	HOEING	PLANT-
	ING	ING				ING	ING		ING	ING		ING	ING
1976	44.0	39.0	41.1	38.4	39.3	114.6	101.5	107.0	112.1	99.3	104.7		
1977	48.3	44.1	42.9	41.6	44.8	115.9	106.0	103.1	107.8	98.6	95.9		
1978	50.8	47.6	45.8	44.5	48.1	114.1	107.0	102.9	105.5	99.0	95.2		
1979	56.5	53.2	51.6	52.4	56.1	107.7	101.4	98.4	100.7	94.8	92.0		
1980	66.1	62.3	61.2	62.6	64.4	105.6	99.6	97.8	102.7	96.9	95.1		
1981	74.4	72.6	70.9	73.4	69.8	101.3	98.9	96.6	106.6	104.1	101.7		
1982	83.1	81.0	80.4	82.1	79.1	101.1	98.6	97.9	105.0	102.4	101.6		
1983	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
1984	114.0	111.7	113.1	104.3	107.7	109.3	107.1	108.4	105.8	103.7	105.0		
1985	130.4	123.5	125.9	100.3	109.3	130.0	123.1	125.5	119.3	113.0	115.2		
1986	146.1	136.9	141.5	113.8	123.4	128.4	120.3	124.4	118.4	111.0	114.7		
1987	166.1	154.6	160.3	130.4	138.7	127.4	118.6	122.9	119.8	111.5	115.6		
1988	185.9	172.3	176.3	155.8	161.8	119.3	110.6	113.2	114.9	106.5	109.0		
1989	201.9	184.7	190.0	166.5	170.5	121.2	111.0	114.1	118.4	108.4	111.5		
1990	220.1	203.4	211.8	180.9	189.9	121.7	112.4	117.1	115.9	107.1	111.5		
1991	248.3	234.5	241.3	201.2	215.4	123.4	116.5	119.9	115.3	108.9	112.0		
1992	289.4	274.8	281.6	213.5	223.6	135.6	128.7	131.9	129.4	122.9	125.9		

SOURCE: BPS FARMERS' TERMS OF TRADE SURVEY.

To look first at trends in the real consumer wage (nominal wage deflated by a consumer price index), which are the best guide to changes in welfare over time, the trends in the three provinces over the 1983-92 period were remarkably similar, as can be seen from Figures 4 to 6, based on Table 10. In all three provinces they rose quite steeply between 1983 and 1985, then fell for three years. Since 1988 they have been increasing, and in 1992, a year of low inflation, this increase accelerated.



Fig 4: Agric Real Wage Trends, C Java  
1983 - 92, Deflated by Food Prices

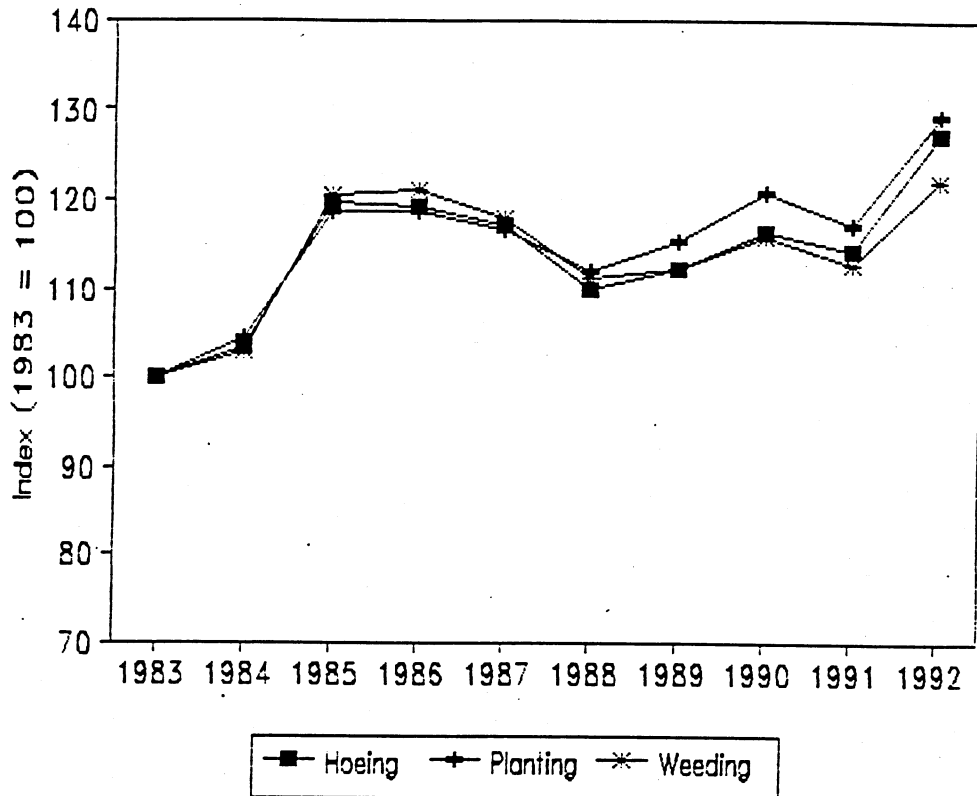


Fig 5: Agric Real Wage Trends, E Java  
1983 - 92, Deflated by Food Prices

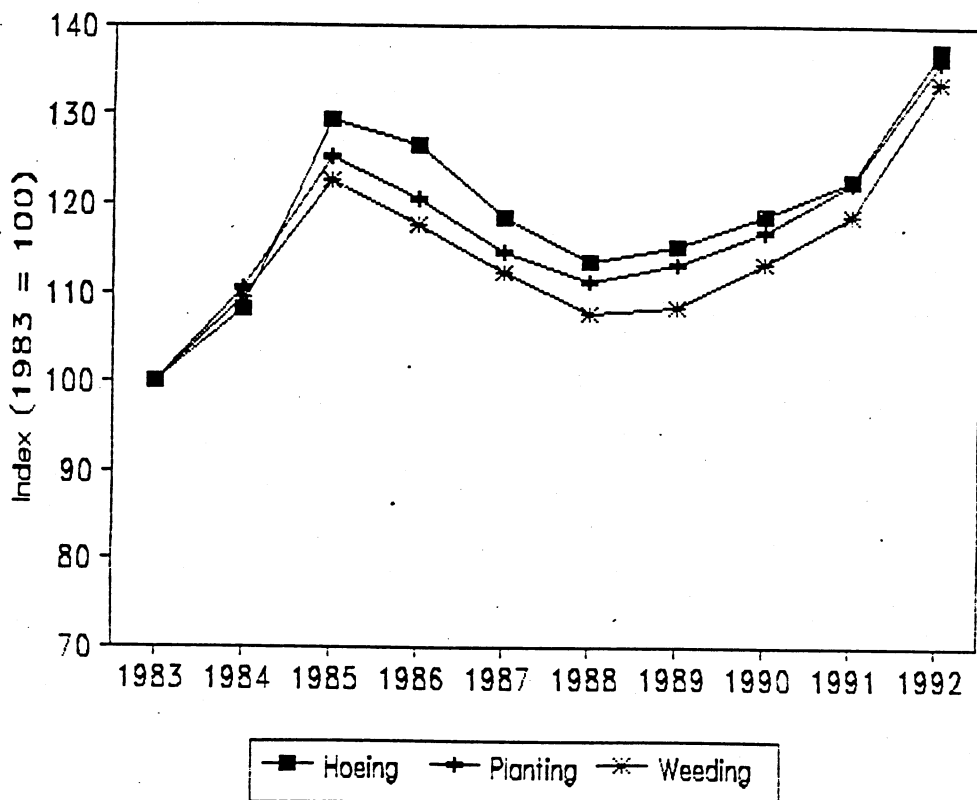
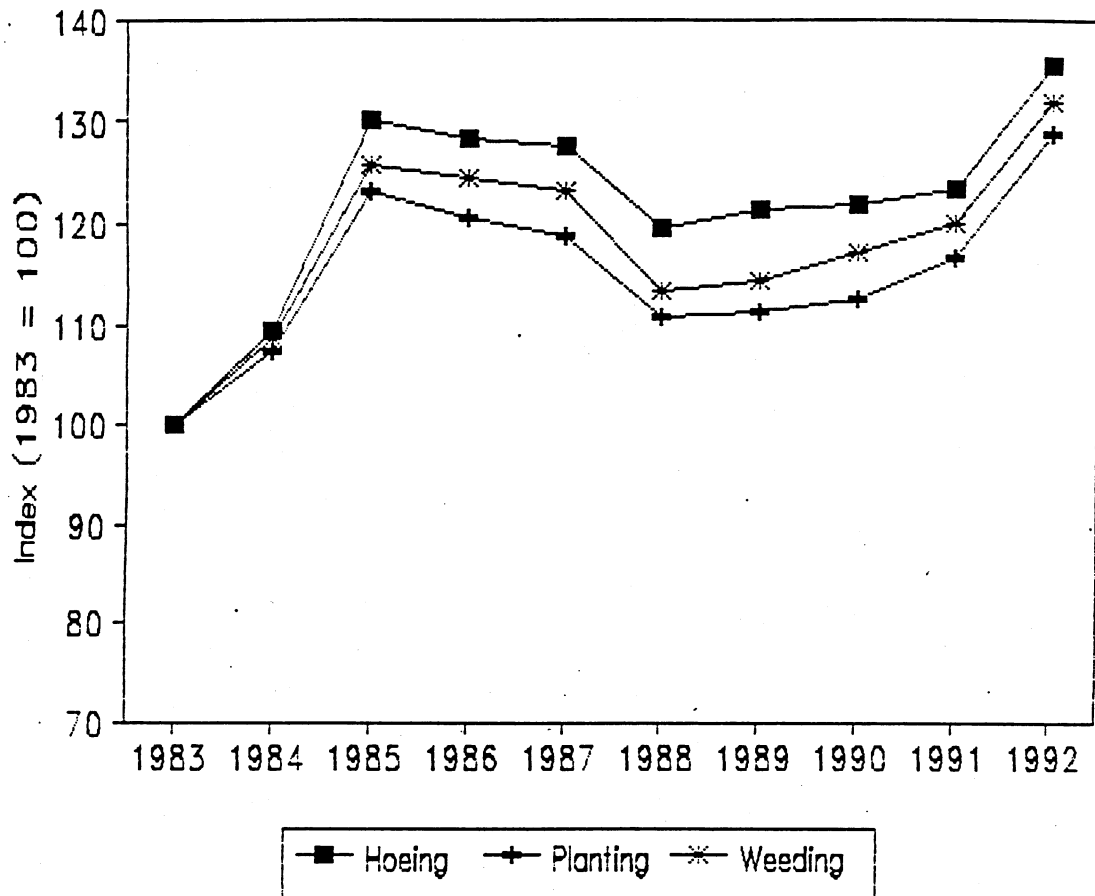


Fig 6: Agric Real Wage Trends, W Java  
1983 - 92, Deflated by Food Prices



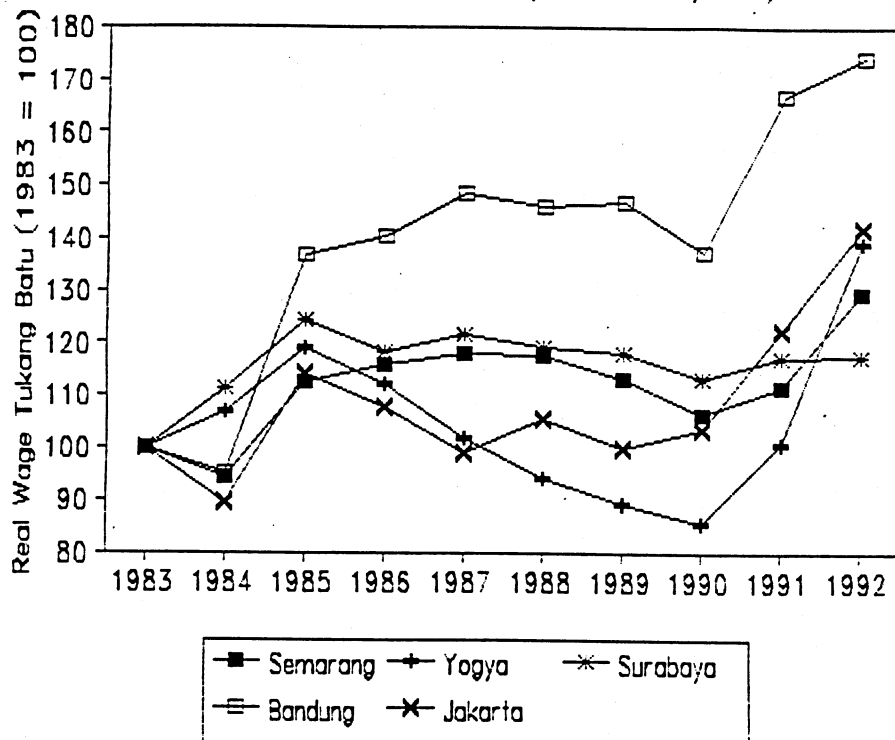
A similar upturn in real wages seems to have occurred in 1991-92 in the construction industry, to judge from the BPS data on bricklayers' wages in five Javanese cities (selected to correspond with the provinces for which agricultural wage data have just been reviewed<sup>10</sup>) in Table 11 and Figure 7.

TABLE 11: BRICKLAYERS' REAL WAGE INDEX (1983 = 100)  
DEFLATED BY CONSUMER PRICE INDEX, SEMARANG,  
YOGYAKARTA, SURABAYA, BANDUNG AND JAKARTA

	SEMARANG	YOGYAKARTA	SURABAYA	BANDUNG	JAKARTA
1983	100	100	100	100	100
1984	94	107	111	95	89
1985	113	119	124	136	114
1986	116	112	118	140	108
1987	118	102	121	148	99
1988	117	94	119	146	105
1989	113	89	118	147	100
1990	106	85	113	137	103
1991	111	100	117	167	122
1992	130	139	118	174	142

SOURCE: BPS, SUB-BAG BAHAN-BAHAN KONSTRUKSI.

Fig 7: Construction Real Wage Trends  
5 Cities 1983 - 92 (Deflated by CPI)



<sup>10</sup> Semarang and Yogyakarta are the cities closest geographically to the Central Javanese agricultural labour market, Bandung and Jakarta to that of West Java, and Surabaya to that of East Java.

In all cases except Bandung construction wages were lower in real terms in 1990 than they had been five years earlier. In all cases they have risen since then, steeply except in the case of Surabaya.

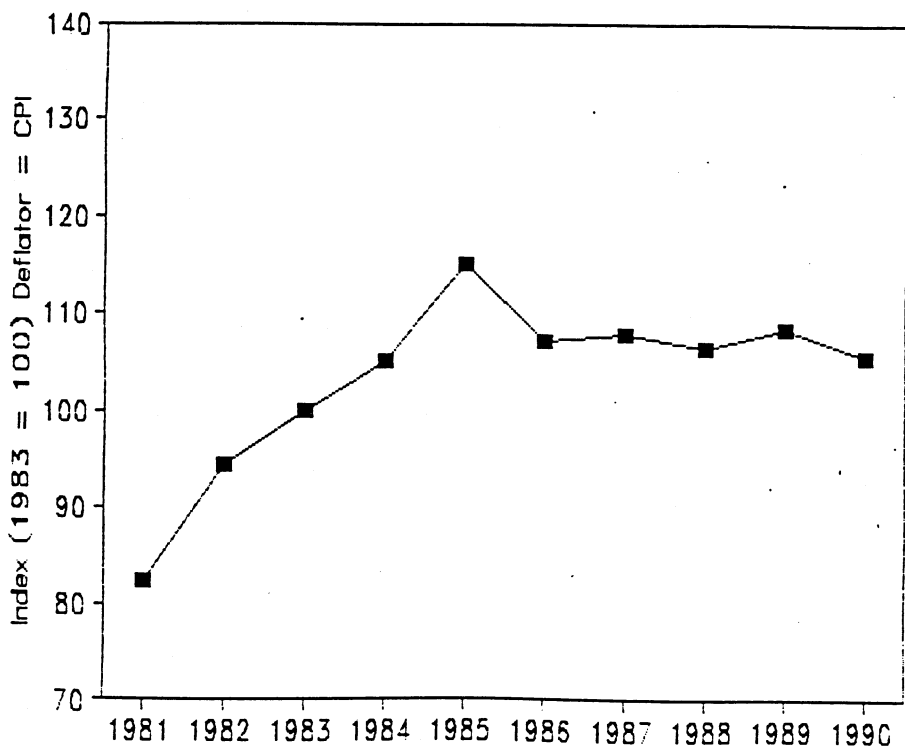
Unfortunately no comparably up-to-date wage statistics are available for manufacturing. Table 12 and Figure 8 show data from the Survei Upah Buruh (unweighted and of dubious quality) on trends in average real wages of production workers in manufacturing, deflated by consumer prices, but they are only available to 1990.

TABLE 12: AVERAGE REAL WAGES OF PRODUCTION WORKERS IN MANUFACTURING, INDEX (1983 = 100), DEFLATED BY CONSUMER PRICE INDEX, 17 CITIES

	AVERAGE NOMINAL WAGE PER DAY (RP)	CONSUMER PRICE INDEX 17 CITIES (1977/8=100)	REAL WAGE INDEX (1983=100)
1981	1205	175	82
1982	1511	192	94
1983	1791	215	100
1984	2084	237	105
1985	2386	248	115
1986	2352	263	107
1987	2581	287	108
1988	2757	310	106
1989	2989	330	108
1990	3187	362	106

SOURCE: BPS, SURVEI UPAH BURUH.

Fig. 8: Real Wage Trends, Production Workers in Manufacturing, 1981 - 90



They follow a similar pattern to agricultural real wages - rising before 1985 and falling to 1988, but the interesting question of whether they have turned sharply upward after 1990 is unanswered.

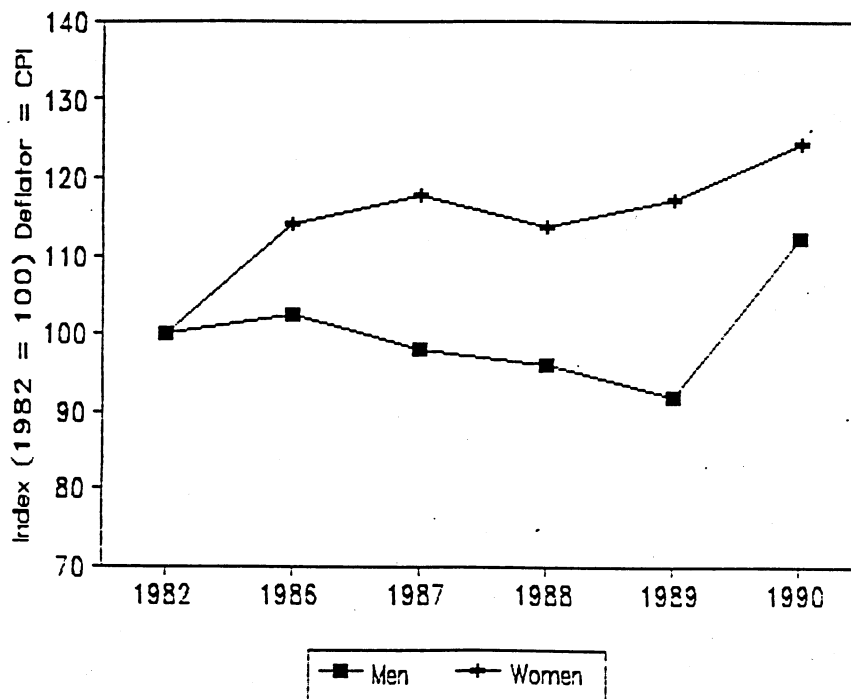
Data on manufacturing from the labour force survey, summarized in Table 13 and Figure 9, are also published with a lag.

TABLE 13: NUMBERS EMPLOYED IN MANUFACTURING, AND REAL EARNINGS INDEX (1982 = 100), 1982, 1986, 1987, 1988, 1989 AND 1990, ALL INDONESIA

	1982	1986	1987	1988	1989	1990
<b>MALE</b>						
NUMBER OF WAGE EMPLOYEES	1852192	2113169	2119008	2250045	2616921	2779237
AVERAGE NOMINAL EARNINGS PER MONTH (RP)	52200	73070	76480	80800	82237	110199
CONSUMER PRICE INDEX	100	137	150	162	172	188
PRODUCER PRICE INDEX	100	125	144	157	167	177
REAL EARNINGS INDEX						
DEFLATOR = CPI	100	102	98	96	92	112
DEFLATOR = PPI	100	112	102	99	94	119
<b>FEMALE</b>						
NUMBER OF WAGE EMPLOYEES	878677	992319	1064169	1116304	1392540	1516427
AVERAGE NOMINAL EARNINGS PER MONTH (RP)	21900	34150	38560	40150	44054	51252
CONSUMER PRICE INDEX	100	137	150	162	172	188
PRODUCER PRICE INDEX	100	125	144	157	167	177
REAL EARNINGS INDEX						
DEFLATOR = CPI	100	114	118	113	117	124
DEFLATOR = PPI	100	125	122	117	120	132

SOURCE: BPS, SAKERNAS.

Fig. 9: Real Wage Trends in Manufacturing, 1982 - 90



The trends in real wages deflated by consumer prices are consistent with those shown for other sectors, although there is an interesting divergence between male and female wages. Women seem to have gained more from industrial growth and structural change in recent years than do men, particularly before 1989, but on average still earn less than half the male wage.

For monitoring of changes in labour markets (as opposed to welfare) it is useful to deflate nominal wages by producer prices as well as consumer prices and to bring statistics on wage employment into the analysis. Figures 10 to 12, based on Table 10, show what has happened to real producer wages, agricultural real wages seen from the point of view of the employer, i.e. deflated by producer prices, between 1983 and 1990 in Central, East and West Java.

Fig. 10: Agric Real Wage Trends, C Java  
1983 - 92, Deflated by Prod Prices

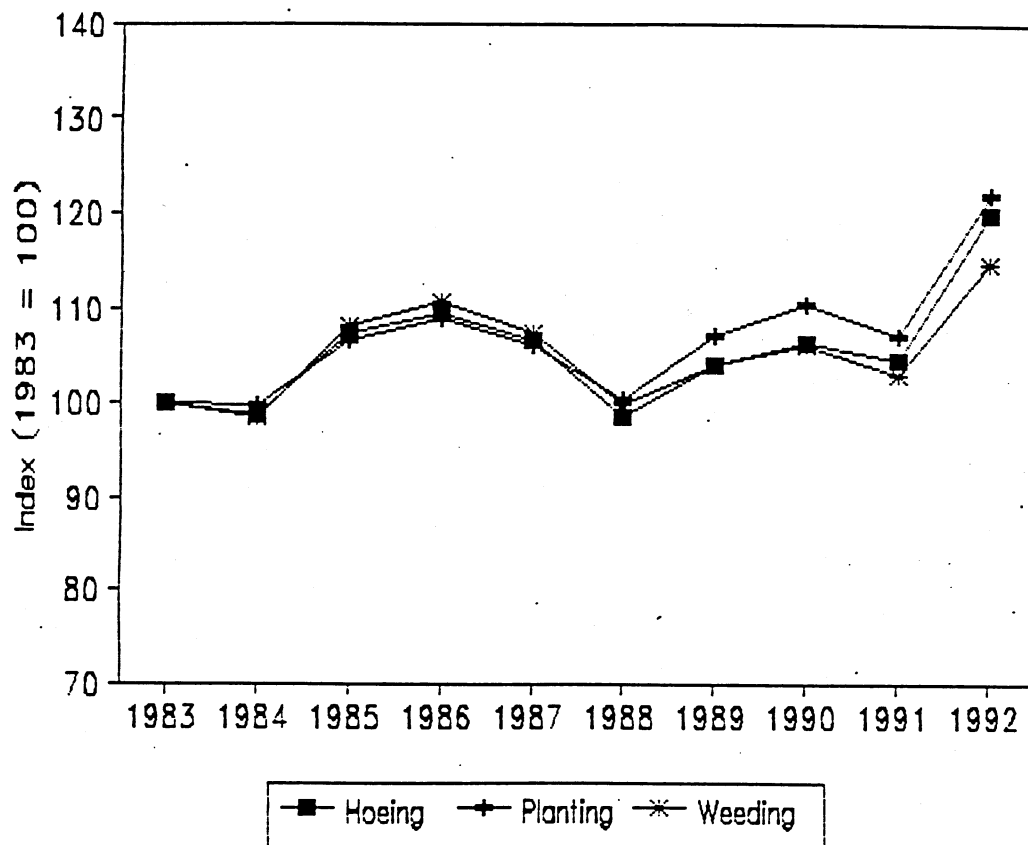


Fig. 11: Agric Real Wage Trends, E Java  
1983 - 92, Deflated by Prod Prices

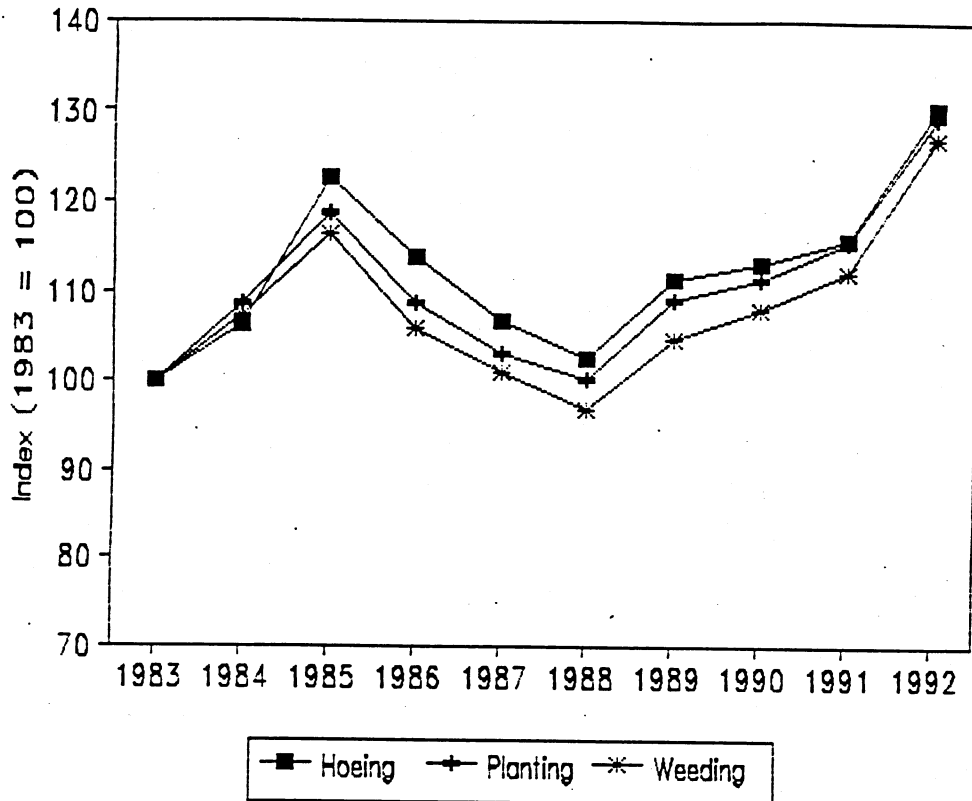
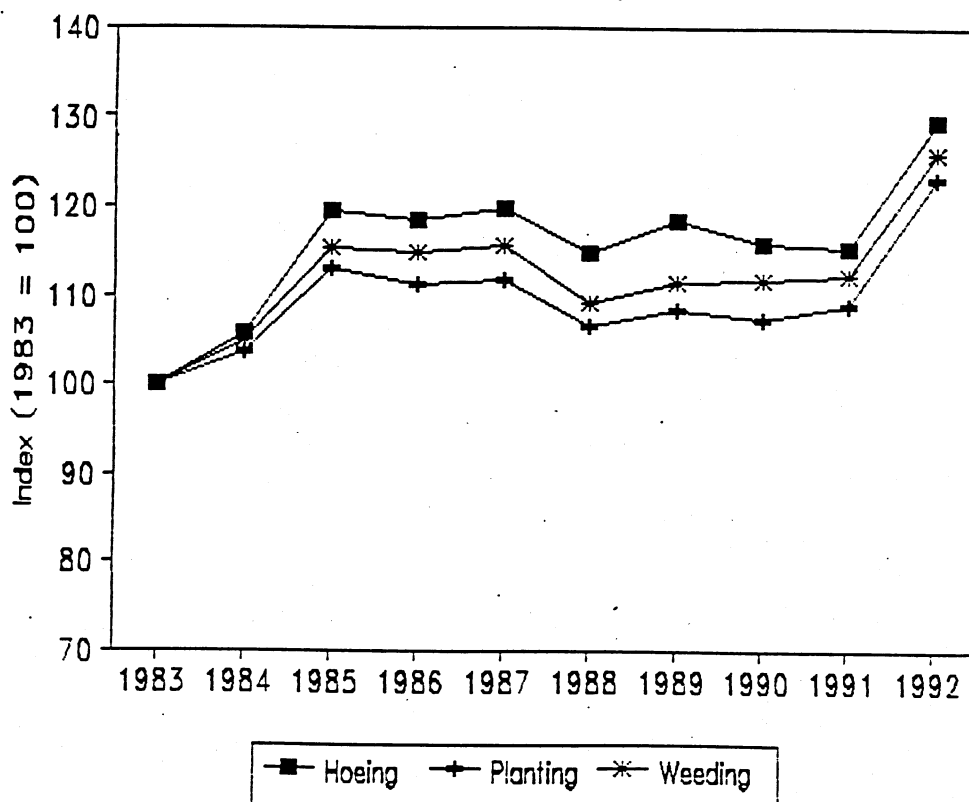


Fig. 12: Agric Real Wage Trends, W Java  
1983 - 92, Deflated by Prod Prices



In all three provinces, as can be seen, employers were favourably placed between 1985 and 1991, with no signs of steep upward pressure on real wages so defined. Real wages were particularly stable in West Java. However, employers faced a sharp rise in real wages in 1992, the meaning of which is not yet clear.

If information on the number of wage employees is additionally taken into account, it is possible to construct "supply curves" of labour as a function of the real wage<sup>11</sup>. Table 14 and Figures 13 to 18 show the relationship between the number of male and female<sup>12</sup> wage employees in agriculture (from the Labour Force Survey) and the real wage index (from the Farmers' Terms of Trade Survey) in each of the three Javanese provinces for the years 1986 to 1990.

TABLE 14: NUMBERS EMPLOYED AND REAL WAGES IN AGRICULTURE, MALE AND FEMALE, CENTRAL, EAST AND WEST JAVA, 1986, 1987, 1988, 1989 AND 1990

CENTRAL JAVA							
-----MALE-----				-----FEMALE-----			
NUMBERS EMPLOYED	REAL WAGE (DEFLATOR = FOOD P)	REAL WAGE (DEFLATOR = PROD P)		NUMBERS EMPLOYED	REAL WAGE (DEFLATOR = FOOD P)	REAL WAGE (DEFLATOR = PROD P)	
1990	621194	116	106	1990	507576	118	108
1989	549805	112	104	1988	485695	117	107
1988	548779	110	99	1989	476640	114	105
1987	538518	117	106	1987	474701	111	100
1986	444471	119	109	1986	369922	120	110
EAST JAVA							
-----MALE-----				-----FEMALE-----			
NUMBERS EMPLOYED	REAL WAGE (DEFLATOR = FOOD P)	REAL WAGE (DEFLATOR = PROD P)		NUMBERS EMPLOYED	REAL WAGE (DEFLATOR = FOOD P)	REAL WAGE (DEFLATOR = PROD P)	
1990	904513	119	113	1990	607656	115	109
1989	862579	115	111	1989	583861	111	107
1988	819057	114	102	1988	557679	109	98
1987	676582	118	106	1987	467631	113	101
1986	645229	126	114	1986	459872	119	107
WEST JAVA							
-----MALE-----				-----FEMALE-----			
NUMBERS EMPLOYED	REAL WAGE (DEFLATOR = FOOD P)	REAL WAGE (DEFLATOR = PROD P)		NUMBERS EMPLOYED	REAL WAGE (DEFLATOR = FOOD P)	REAL WAGE (DEFLATOR = PROD P)	
1989	767638	121	118	1989	526927	113	110
1990	747592	122	116	1988	523866	112	108
1988	669115	119	115	1990	475408	115	109
1987	601967	127	120	1987	431025	121	114
1986	511387	128	118	1986	429581	123	113

SOURCES: NUMBERS EMPLOYED, SAKERNAS; WAGES AND PRICES, SURVEI NILAI TUKAR PETANI.

<sup>11</sup> These are not really supply curves in the sense of measuring the response of labour supply, other things being equal, to changes in real wages - hence the inverted commas. They show, rather, the path of labour market outcomes of the interaction of both demand and supply - what happened to wages as the level of employment rose and fell.

<sup>12</sup> The wages are for the predominantly female planting and weeding and the predominantly male hoeing occupations.



Figure 13: "Supply Curve" of Male Wage Labour to Agriculture, C Java

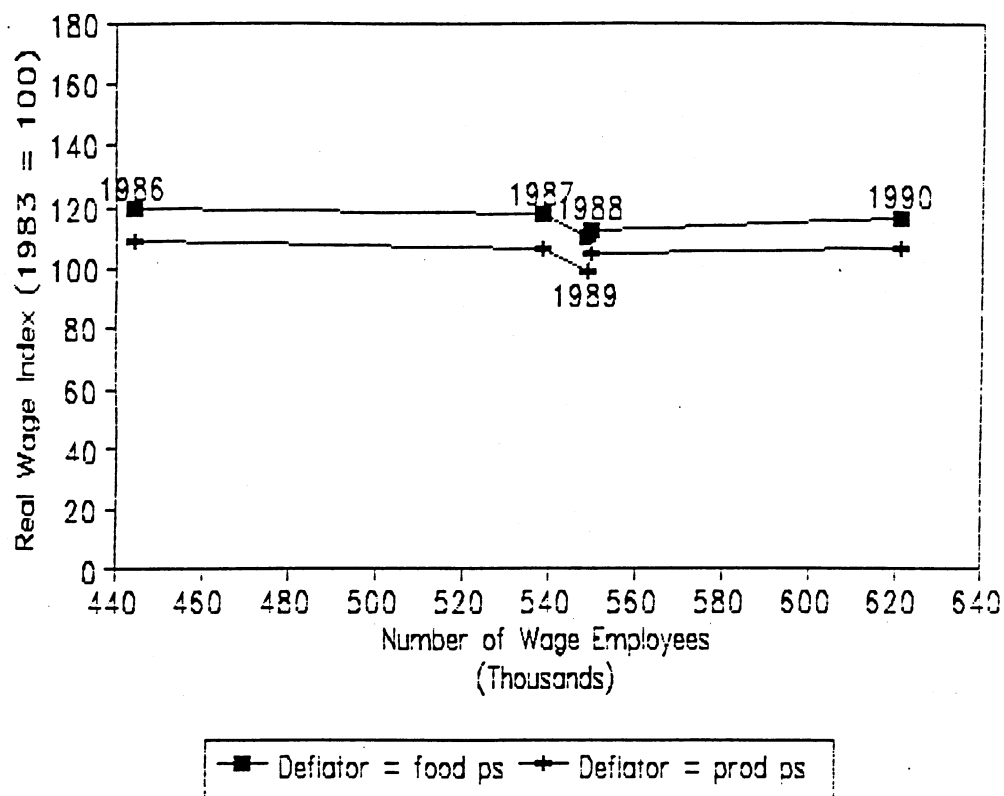


Fig. 14: "Supply Curve" of Female Wage Labour to Agriculture, C Java

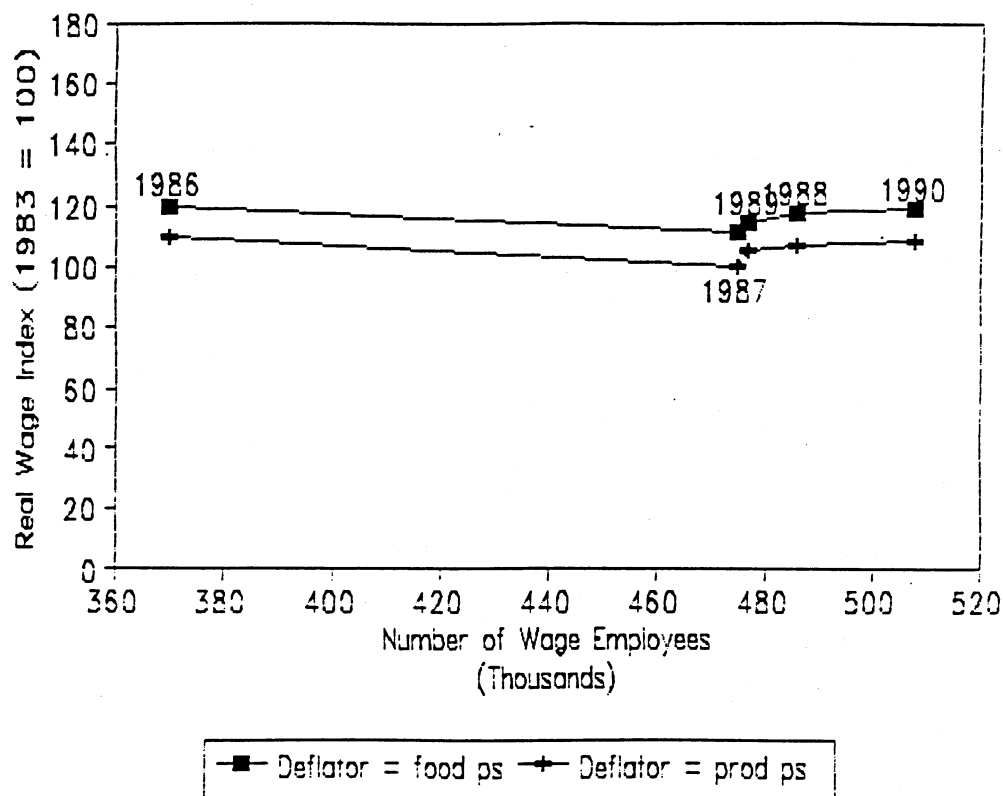


Figure 15: "Supply Curve" of Male Wage Labour to Agriculture, E Java

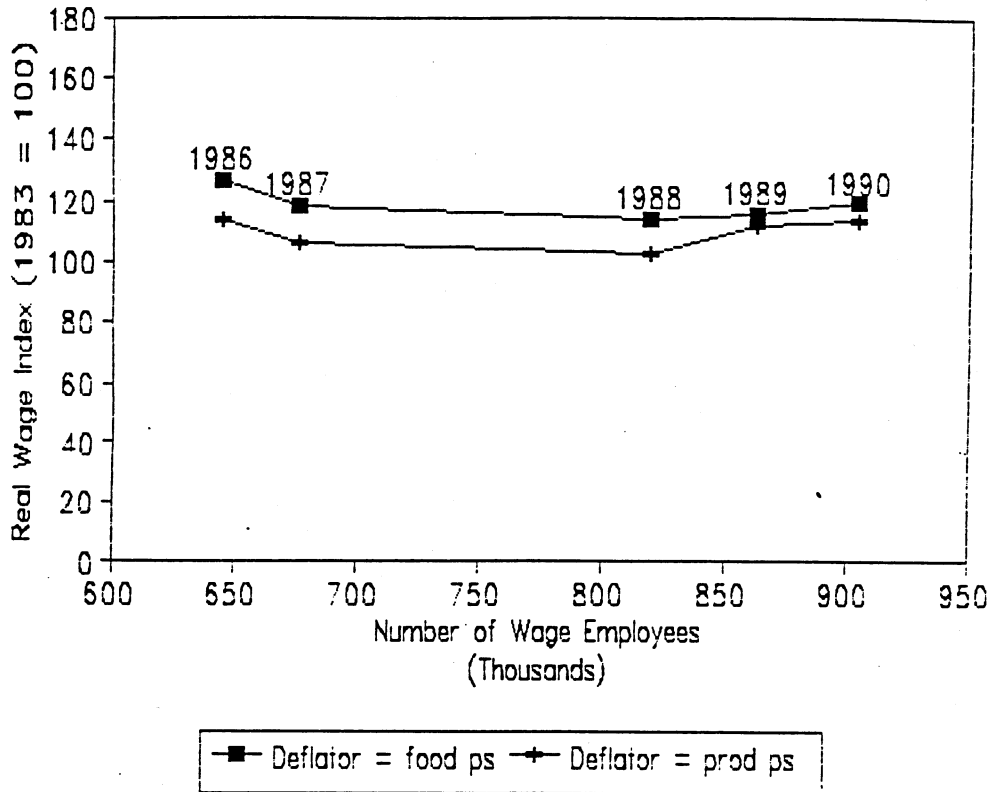


Fig. 16: "Supply Curve" of Female Wage Labour to Agriculture, E Java

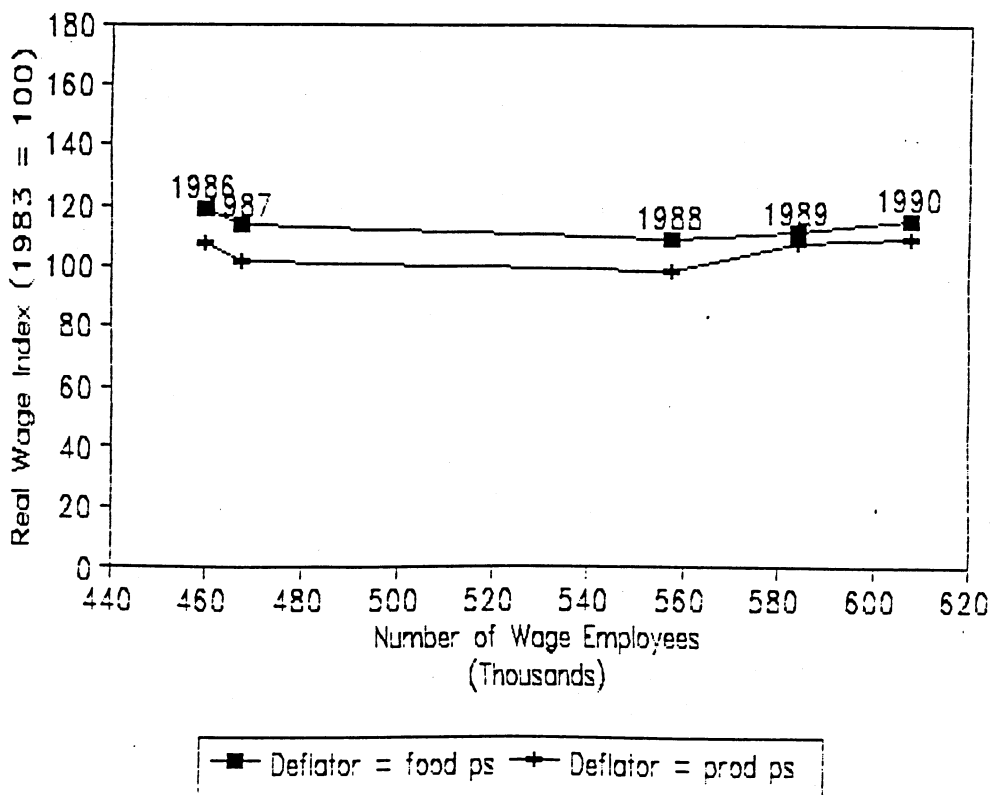


Figure 17: "Supply Curve" of Male Wage Labour to Agriculture, W Java

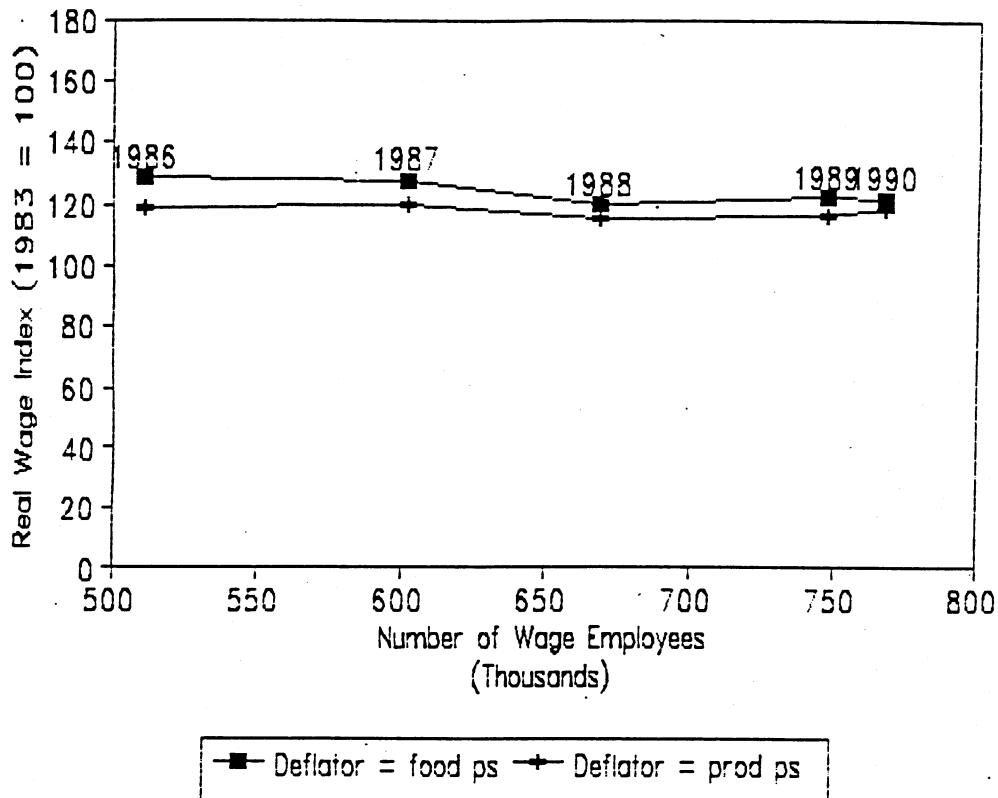
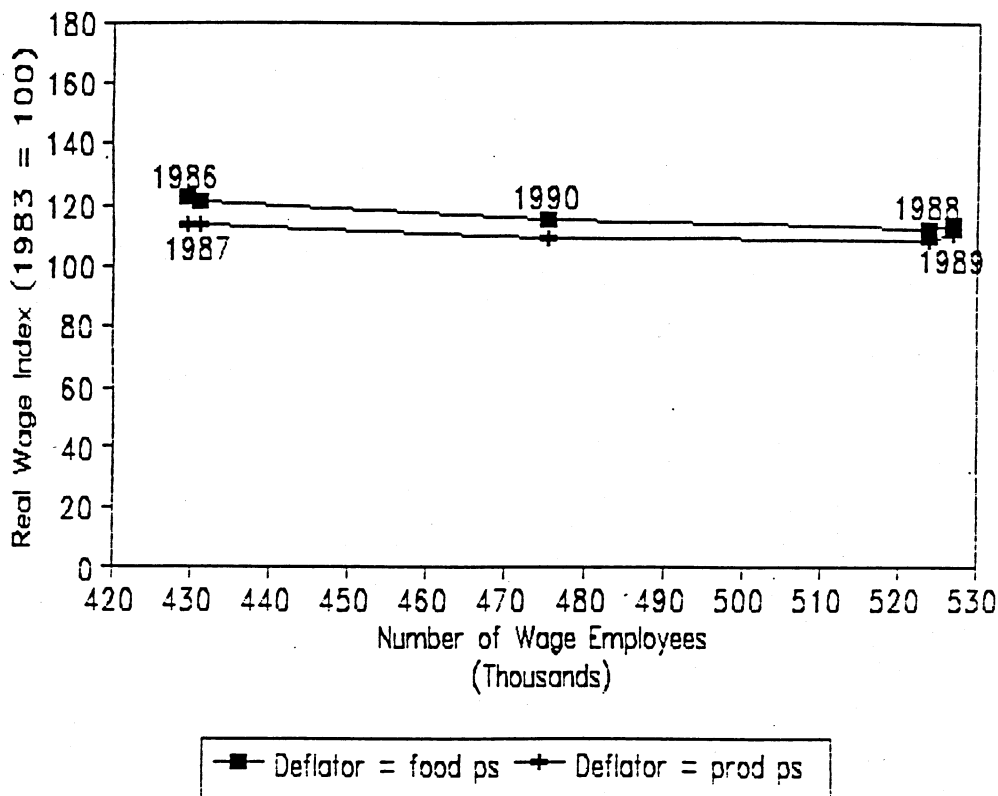


Fig. 18: "Supply Curve" of Female Wage Labour to Agriculture, W Java



As can be seen, agricultural wage employment increased in all three provinces between 1986 and 1990 (except for females in West Java between 1989 and 1990). As this was not accompanied by any substantial increase in the nominal wage deflated by consumer food prices, this yields a more or less horizontal "supply curve" of employees as a function of the real consumer wage.

More relevant to the question of whether Indonesia is still a labour-surplus economy is the shape of the supply curve as a function of the real producer wage (the nominal wage deflated by the producer price). Broadly speaking, in a relaxed version of the unlimited-labour-supply model, fluctuations in the supply price of labour as employment increases should not disqualify an economy from being defined as labour-surplus, as long as those fluctuations are not occurring around a steeply rising trend.

As far as Figures 13 to 18 are concerned, West Java (Figures 17 and 18) seems to be the best example of the classic labour-surplus economy, apparently able to increase wage employment of both men and women in agriculture without any increase in the real producer wage (partly by pulling in labour from other provinces, particularly Central Java). In Central Java (Figures 13 and 14) the big expansion in employment between 1986 and 1987 was accompanied by a fall in real producer wages for both sexes; thereafter they rose for women but only slightly. In East Java (Figures 15 and 16) the big expansion in employment, between 1986 and 1988, also involved a fall in real producer wages, which was barely recouped as employment expanded further. Both Central and East Java in the 1986-90 period look consistent with a relaxed version of the unlimited-labour-supply model.

Wage employment in manufacturing increased spectacularly between 1986 and 1990, as Table 13 shows. Total employment rose at an annual average rate of 8.4 per cent over the period, while that of women rose even faster, at a rate of 11.2 per cent. Figures 19 and 20, based on the data from the Labour Force Survey in Table 13, show what happened to real wages in manufacturing as employment increased.

As can be seen, the rise in employment between 1986 and 1989 was achieved without an increase in the producer or the consumer wage for either sex, which is consistent with the unlimited-labour-supply model. However, in 1990 both indicators moved upwards quite sharply, though more so for men than for women.

To summarize the impact of the economic reform programme, there is no doubt that it has been, on balance, employment-friendly. This is not to deny that growth of employment would have been higher if interest rates had been lower and if the net domestic impact of the government budget had been cut less. Nor can it be denied that many problems have emerged, including unequal geographical incidence of benefits, concentration of land ownership and premature mechanization. Nevertheless, the net impact of the programme on the demand for labour has been positive.

Fig. 19: "Supply Curve" of Male  
Labour to Manufacturing, 1986 - 90

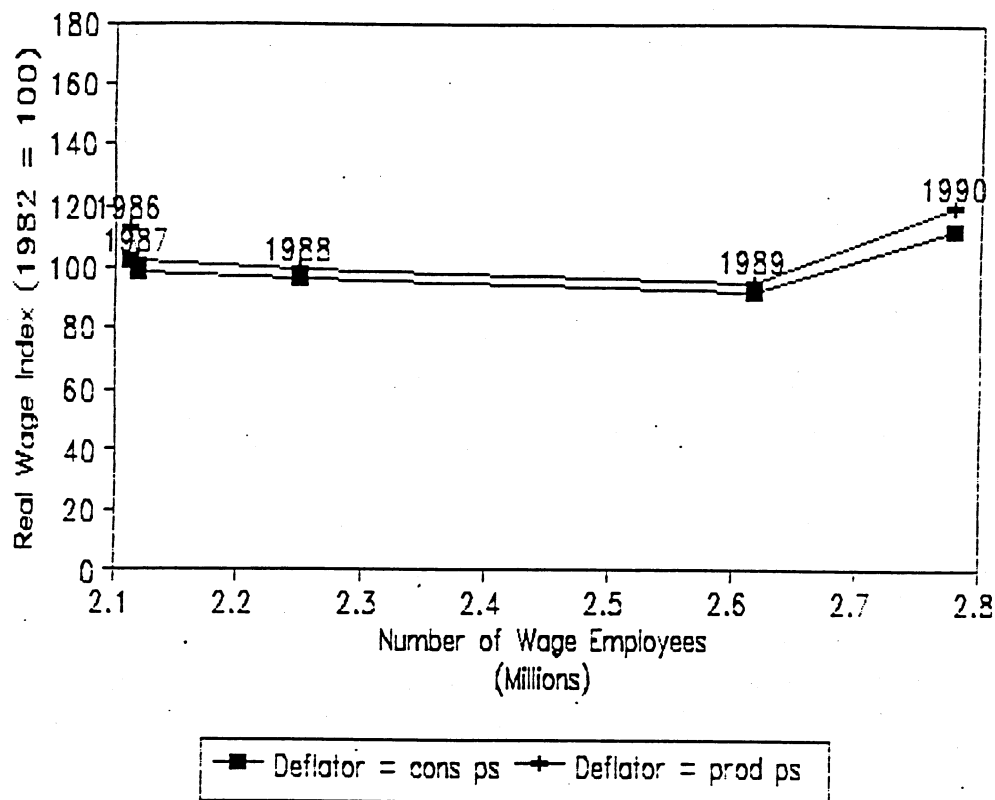
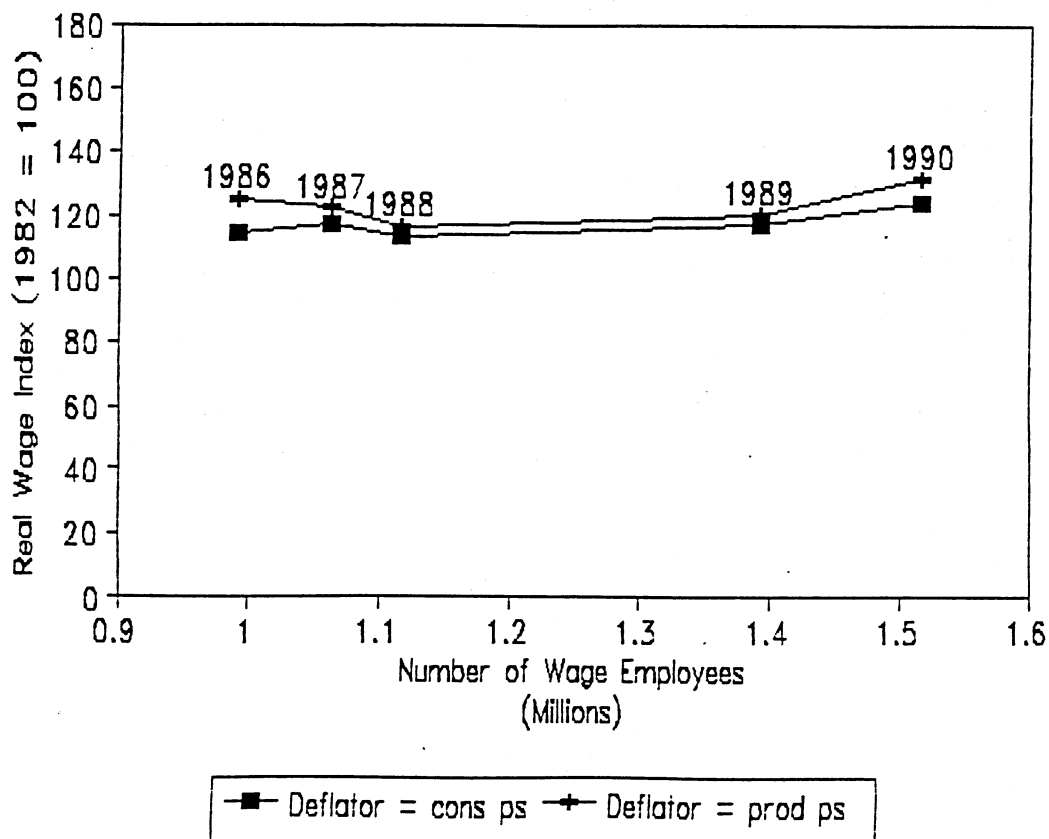


Fig. 20: "Supply Curve" of Female  
Labour to Manufacturing, 1986 - 90



This is reflected primarily in a very fast rate of increase in wage employment, particularly of women. At least until the end of the 1980s it was not reflected in an increase in real wages. Indonesia seemed to fit the classical model of economic development with unlimited supplies of labour. In the last few years, and especially in 1992, there have been some significant developments. Agricultural real wages (consumer and producer) appear to have turned sharply upwards in 1992, while a similar steep upturn in construction wages in some cities seems to have started a year earlier. Manufacturing wage data are not yet available beyond 1990, but at least one source (the Labour Force Survey) gives some signs of upward pressure in that year.

It is much too early to judge whether these trends are evidence of a tightening of the labour market. Wages are still desperately low and labour is weak. Observers are divided about how to interpret the wave of strikes since 1990, discussed in the next chapter. Most are sceptical of interpretations that presage the rising-real-wage turning point, which, if it reflects a real labour shortage, must be seen as the proper, ultimate aim of employment strategy. They put this at least ten years in the future. Nevertheless, at the margins some very interesting things are going on, which will repay the careful attention of labour economists.

#### IV. THE EFFECTIVENESS OF EMPLOYMENT PLANNING

This chapter is based on interviews in Jakarta in February 1993 with a number of employment planners and policy makers, international agencies and projects, non-government organisations, academics and consultants (see Appendix C). The following seven questions about employment planning in Indonesia were asked.

1. What is the division of labour in employment planning between the planning agency (BAPPENAS), the Manpower Ministry, the line ministries and other agencies?
2. Have assessments of the impact of the reform programme on employment been made, either in advance or in process, and, if so, have they led to any changes in the shape of the programme?
3. What use is made of employment forecasts, and how accurate have they been?
4. How reliable and relevant are labour market statistics? What use is made of them, and what action has been taken to improve them?
5. What role have interest groups, particularly labour unions and employers, had in influencing the shape of the reform programme?
6. Have there been any special schemes to ease any negative impact of the reform programme on employment?
7. What has been the role of expatriate advisers and international agencies in influencing the shape of the reform programme, assessing its effects on employment and advising on employment policy?

This chapter does not set out to summarise the views of the informants on these questions<sup>13</sup> but builds on those discussions, as well as other evidence and experience, to reach conclusions for which the author bears sole responsibility.

##### 1. Division of labour in employment planning

The planning agency, BAPPENAS, might be described as the last bastion of old-fashioned development planning, placing great emphasis on preparation of five-year development plans and projections. It also determines the budgets of the line ministries, to the benefit of its power in relationship to them.

Its tendency in the past few years, as far as employment planning is concerned, has been to take over planning functions from the Manpower Ministry (formally responsible for employment) and to talk directly to sectoral ministries about these matters. This is exemplified by an increasing number of international technical assistance projects on

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<sup>13</sup>

Who, of course, have no responsibility for what is written here.

employment issues working directly to BAPPENAS rather than to the Manpower Ministry, including the USAID-funded Development Studies Project, the World-Bank-funded Professional Human Resources Development Project, and the ILO/UNDP Project on Sectoral Employment Planning and Policy.

An interesting counter-tendency has been the emergence in the past five years of an informal group of planners, from four ministries, BAPPENAS, Manpower, Education and Statistics, which meets regularly to discuss employment and human resource development issues. Coordinated by the planning agency's Deputy Chairman for Natural and Human Resources, and consisting mainly of young(ish) rising stars within each ministry, the group (in which some academics and technical assistance people also participate) prepares papers for discussion and subsequent use in development plans. Its members show remarkably enthusiasm, working at weekends to prepare for meetings. This is a development that would be worth building on, and will be returned to in chapter four.

## **2. Have assessments of employment impact led to changes in the reform programme?**

Unfortunately, while there is, thus, a lot of plan-writing going on, there is very little planning of employment, in the sense of devising and implementing policies to promote it. It is very difficult to find examples of changes in the reform programme derived from concern with its impact on employment.

This is partly because, as has been described in chapter two, the reform programme has generally been employment-friendly. Monitoring of the employment effects of the programme would probably support a case for more rather than less reform. For instance, reduction in the monopoly power of conglomerates, removal of bans or high taxes on raw material exports, lifting of restrictions on what farmers can grow, less intervention in the urban self-employed sector, abolition of subsidies to purchase of capital goods (including tractors), would all be favourable to the demand for labour. But employment has never been an explicit objective of policy, always an indirect effect of other objectives.

This is not to say that the government is insensitive to complaints of inequity in the distribution of the benefits of the reform programme. But this is a political concern which results in political gestures, particularly presidential pronouncements or directives which do not appear to reflect the advice of professional economists. For example, large enterprises have been enjoined to transfer 25 per cent of their equity to cooperatives, and banks have been told to devote 20 per cent of their lending to small enterprises. Such moves, which make investors nervous about what may come next, may actually have a net negative effect on the demand for labour, but they are a sign of official concern that the growth process should not appear to be too inequitable.

## **3. The use of employment forecasts and their accuracy**

Forecasts of employment, by sector and often by occupation and education level, have long been the central activity of Indonesian employment planners. Some now suggest



that, at least among central planners, such forecasts are no longer taken seriously. Where the unemployment rate varies scarcely at all from year to year, it is now recognized, employment elasticities are supply- rather than demand-determined. Nevertheless, a lot of forecasting is still going on. At the centre, this may, as is claimed, have a mainly consciousness-raising role - forecasts for plan chapters to illustrate the scale of structural change that can be expected. In the districts, forecasts, using centrally provided data, are a substitute for finding out what is going on in local labour markets.

Forecasts have been no more accurate in Indonesia than anywhere else. They have signally failed to predict the impact of such reforms as deregulation of the financial sector, which led to an explosion of demand for workers with any claim to numeracy. As elsewhere, however, this did not matter much, since forecasts have no influence on policy in any case. Most decisions affecting the level and pattern of supply of and demand for labour are taken in markets rather than ministries.

#### 4. Labour market statistics

In general, Indonesian labour market statistics are not too bad. There are some problems. The most widely discussed is the discrepancy between the labour force survey (SAKERNAS), published annually, and the census series, which reports every five years. In 1990, for instance, the census shows that less than 50 per cent of total employment was in agriculture, while the labour force survey suggests that the proportion was over 55 per cent (this matters in a country where the Rostovian concept of take-off is still taken seriously). Most labour economists would probably prefer to rely on the labour force survey, which has a good questionnaire and relatively skilled enumerators, rather than the census, but there may be problems with the size and representativeness of its sample<sup>14</sup>. An opportunity for both economizing on survey costs and increasing the sample size arises from the fact that the household expenditure survey (SUSENAS), implemented every February, now includes 10 questions from the labour force survey questionnaire. Only 7 SAKERNAS questions are not included in the SUSENAS questionnaire. If suggestions that labour force data show little variation from season to season are verified, a single, annual SAKERNAS/SUSENAS survey (incorporating the extra 7 questions), with a sample of 206,000 households, could be substituted for the four quarterly SAKERNAS surveys, with a total annual sample of 82,080 households.

One of the areas of labour market statistics most in need of improvement is wage statistics<sup>15</sup>. Many wage data (eg on agriculture, construction and occupational wages) are of poor statistical quality. Delays in publication of wage data tend to limit their usefulness for monitoring purposes. Surveys are often gender-blind, not distinguishing between male and female wages.

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<sup>14</sup> See Popovic (1992) for a discussion of problems connected with the Labour Force Survey.

<sup>15</sup> See Godfrey (1991) for further discussion.

Several improvements are under way. The publication delay, in the case of the labour force survey (which includes wage data), has been cut to six months and is to be reduced further. A new quarterly wage survey, which will collect and quickly publish data on median earnings per production worker from establishments in industry, hotels and mining, is at the pilot stage. An annual report on the Manpower and Employment Situation in Indonesia and a more frequent Manpower Newsletter, initiated by an ILO project<sup>16</sup>, are to be published regularly. A district-level labour force survey (SAKERDA) is being tried in a sample of districts. A one-off tracer study (so far a badly neglected type of enquiry) of university graduates will be carried out as part of the World Bank Higher Education Development Project.

Some important phenomena (such as circular migration) escape the net of labour statistics, and further improvements in survey content and method would, no doubt, be useful. But much more important than any inadequacies in the supply of statistics are the continuing weaknesses on the demand side. Consumers of statistics (particularly in line ministries) are generally unaware of the questions of employment policy that are important and that labour market statistics can help to answer. Such pressure as there is for changes in surveys tends to concentrate on the data needed for projections (such as occupational data) rather than on those needed to answer policy questions (such as tracer study data).

##### **5. The role of interest groups in influencing the shape of the reform programme**

An interesting question about the Indonesian reform programme, addressed more fully in the next section, is why it was ever initiated at all. The line-up of interest groups at the beginning of the 1980s looked fairly solidly in favour of the status quo, with much to lose from erosion of monopoly and protection. In the event business groups oriented towards the home market have fought hard to maintain their privileges, while flexibly shifting ground to take advantage of opportunities opened up by the process of reform, for instance in export markets and in the financial sector. And new reformist enterprises have emerged, with interests in accelerating the pace of deregulation. Some suggest that the struggle between protectionists and reformists is reflected in government, in differences of view between the Ministries of Industry and Trade.

While the shape of the programme reflects the varied interests of employers, the official labour union, SPPI, virtually an arm of government, is generally agreed to have had no influence at all in this area. The various women's movements, mostly top-down organizations, have been similarly uninfluential. However, workers have begun, in the last few years, to express their grievances over low pay and poor working conditions directly, by going on strike. In the first ten months of 1992 there were 177 such strikes, compared with 130 in the whole of 1991 and virtually none before 1990. Some non-government organizations have been advising workers, and new, as yet unrecognized, labour unions are beginning to emerge but, on the whole, these protests are local and spontaneous, involving mostly female workers.

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<sup>16</sup> ILO/UNDP project INS/90/001, Information System for Employment Development and Manpower Planning.

The recent upturn in some wages, noted in chapter two, raises the question as to whether this increased militancy reflects feelings of greater bargaining power in a slightly improving labour market. Most observers doubt this, remaining sceptical about the evidence of sustainable improvement and putting more emphasis on the more permissive political climate. The government has allowed a gradual demilitarization of industrial relations, and since 1989 the Manpower Ministry has conducted a campaign against breaches of minimum wage regulations. These regulations are now to be revised, and will be based on minimum living needs rather than merely minimum subsistence needs.

Willingness to strike may also be affected by the rising average educational level of wage-earners and their awareness of their rights and of events elsewhere. One set of conspiracy theorists suspects that the AFL/CIO are playing a part (the US government is seriously considering withdrawing Indonesia from the list of countries under the General System of Preferences). Other conspiracy theorists, who emphasize the orchestrating role of the Indonesian government, point to the fact that the number of strikes mysteriously fell in the months leading up to the March 1993 meeting of Parliament.

## **6. Special schemes to ease the negative impact on employment**

Indonesia has a tradition of labour-intensive public works programmes, which played an important role in the 1970s and early 1980s in maintaining the level of demand for labour, particularly in rural areas, and preventing the emergence of the "Dutch Disease"<sup>17</sup> which affected some other oil producers during the boom period.

It seems likely that expenditure on these programmes was allowed to fall too far in the second half of the 1980s, when they could have eased the pain of stabilization and structural adjustment without fuelling inflation. In more recent years, with demand for labour apparently expanding fast and the rice cycle becoming more continuous, a smaller role for such schemes is understandable, but it is important that they be retained in reserve as low-wage, counter-cyclical "guaranteed employment schemes".

## **7. The role of expatriate advisers and international agencies**

The role of expatriate advisers and international agencies in Indonesia has been important but should not be exaggerated. The driving force behind the reform programme has been a group of Indonesian technocrats in key ministerial positions who had the ear of the President. The World Bank played the role of "sparring partner" to this group, supporting on-going and encouraging further reforms rather than attaching explicit conditionality to its policy lending. Often the government has gone further than the Bank expected. The technocrats, in turn, have sometimes invoked the name of the Bank in

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<sup>17</sup> The Dutch disease results from the impact of foreign exchange earnings from oil on the value of a country's currency. Imports of all kinds become so cheap that local production becomes uneconomic. Unless counteracted, this can have a particularly destructive effect on rural areas.

domestic struggles over policy, as a counterweight to pressure from, say, the Ministries of Industry or Technology. Other groups have played a technical advisory role in the reform process, particularly the Harvard Group, in the Ministry of Finance and (until recently) in the Centre for Policy Implementation Studies (CPIS), the influential government think-tank, and USAID in agriculture.

On employment policy, ILO has played the biggest role, with projects since 1987 including: the manpower information system; overseas employment promotion; implementation of an employment creation strategy; policy and training related to self-employment; a local enterprise development agency programme; manpower planning for improved productivity in the mining and energy sector; assessing the feasibility of productivity improvement through results-oriented maintenance management in the road transport sector; sectoral employment policy and planning; improvement of women workers' welfare and working conditions; and a number of training projects, including manpower development and training in East Java, and training for the construction, hotels and tourism sectors and for rural cooperatives. The World Bank has financed a Manpower Development and Training project in the Manpower Ministry and a Professional Human Resources Development project in BAPPENAS. USAID funds the Development Studies Project, which works on employment-related and other issues for BAPPENAS and the Bureau of Statistics. CPIS did some work on the informal sector, with assistance from the Harvard Group. UNESCO, UNIDO, FAO and UNFPA are involved in employment-oriented projects in various ministries<sup>18</sup>.

Some of these projects have been disappointing, due to the poor quality of the expatriate advisers involved or to the failure of the government to make the best use of them. Technical assistance sometimes seems to be regarded by the government as the price to be paid for useful foreign exchange or for other benefits of projects. Many have done a good technical job, leaving behind methods and processes which are still in use. For instance, the work of the ILO employment creation strategy project on macroeconomic and input-output modelling and planning for education, training and employment is still influential. And work in the Development Studies Project has resulted in an overhaul of industrial statistics (and a revision of GDP estimates) and a new approach to collection of wage statistics. They have also raised issues for debate in policy circles, as a summary of selected reports emanating from selected projects shows.

For the ILO Employment Creation Strategy Project, for instance, Paauw (1986) argued strongly, on the basis of case-studies of the processed food and vegetable, animal feed and footwear industries, for employment creation through promotion of labour-intensive exports, and drew particular attention to factors contributing to the "high-cost economy", listing them as follows: bans and quotas on certain types of imports and the granting of monopoly privileges; tariffs at higher than "infant industry" rates; complex licensing procedures for all business activities, especially exporting; a multiplicity of regulations affecting investment, production and exporting; high road transport costs, due to protection and regulations; inadequate harbour and storage facilities; and delays in

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<sup>18</sup> See UNDP Project Profiles for Indonesia 1992 for a full list of UNDP-supported projects.

movement of productive inputs and finished goods, due to bureaucratic barriers and corruption.

For the same project Jammal (1987), using an input-output model, explored the implications of satisfying the latent demand for new houses in Indonesia (which he estimated at between three and six million houses) over a five-year period. He estimated the first-round and indirect effects alone at between one and two million additional jobs. If the income multiplier were also taken into account, this would add another million or so jobs. He identified several institutional obstacles to this achievement, and recommended that: (a) building standards should be relaxed and made more relevant to local needs and conditions; (b) ways of mobilizing long-term mortgage funds, and of providing mortgage loans to people without fixed incomes should be explored; (c) the administrative system for land acquisition etc should be overhauled; (d) most important, a cadastral survey should be carried out, making possible unambiguous registration of land ownership and providing adequate security of tenure.

In a later phase of the same project, Rice (1989) explored the employment potential of the shrimp industry. Predicting greatly increased competition in world markets, he emphasized the need for the Indonesian industry to become as low-cost and competitive as possible. To this end he recommended that: imports of inputs into the industry and the entry of new firms into the industry should not be restricted; small-scale, labour-intensive, capital-saving hatcheries should be developed; labour-saving machinery and equipment should not be subsidized; some subsidization of the use of labour could be justified; and more research should be carried out on development of further tambaks (brackishwater ponds), on the damage which some tambak owners are causing other operators, and on world markets for shrimps.

For the ILO Sectoral Employment Planning and Policy Project, Lim (1992) provided quantitative estimates of the rate of capital subsidy enjoyed by firms in Indonesian manufacturing. He estimated that a firm enjoying tax and other incentives would have its cost of capital reduced to between 0.7 and 1.6 per cent, compared with bank interest rates of over 20 per cent. Accordingly, firms tended to substitute capital for labour to an excessive degree, building wastefully large plant capacity and utilizing only a relatively small proportion, causing waste of capital as well as loss of employment opportunity.

In the Development Studies Project, the case was put for a revival in spending on labour-intensive rural public works programmes to alleviate the pain of the early years of structural adjustment (Godfrey 1988), and a model was developed ("Keynes in the Countryside") to simulate the effect of such a revival (Morley 1988). On the assumption of special measures to increase rice production and of foreign aid financing for at least half the programme, the possibility of a substantial, non-inflationary increase in demand for labour was suggested.

Also for the Development Studies Project, an investigation of the boom in Bali's garment industry (Cole and Wheeler 1988) yielded important lessons about the constraints on the growth of employment in small businesses. Entrepreneurial learning in the industry was found to have been extremely rapid. The number of indigenous Indonesian entrepreneurs surged during the 1980s, some of them having learned the basics as workers

in small garment factories, others integrating backwards from the retail trade. By 1988 the share of such Indonesians in the value of Bali's garment production was moving rapidly towards 50 per cent, and they were already running well over half of existing enterprises. However, neither entrepreneurship nor any of the other "classical" production inputs (capital, labour, materials) was seen as the crucial factor in the growth of the industry. There was no shortage of local entrepreneurs in Bali or in the rest of Indonesia; they were, in fact, a "slack variable". What was lacking was information, about organisation, techniques and markets. And it was the opening of low-cost access to such information, through foreign buyers (allowed to reside in the island by a tolerant local administration), which unleashed the boom in output and exports. Moreover, the industry's success was in no way dependent on direct government subsidies; finance came from retained earnings, and no protective regulation was needed to enable it to compete in international markets.

Several papers for the Development Studies Project explored the implications for output, exports and employment of a favourite Indonesian policy measure - a ban on exports of a raw material to encourage processing. This was found to be a rational policy in the case of rattan (Schydrowsky, Cole, Soekarno 1988), but only if a rapid rate of growth in manufacturing were achieved, if the decision immediately to raise the reference price for export tax were cancelled and if the classification of manufactured rattan products was not made more restrictive. However, such a ban would not be rational for other raw materials such as latex and leather. It only worked in the case of rattan because of Indonesia's virtual monopoly position and the low domestic resource cost of manufacturing. Other raw materials generally did not have the same characteristics.

In general, then, these projects have played a useful role in improving techniques of analysis and planning and in raising issues for debate. Since, however, employment has not been an explicit policy objective, and since some projects, such as the Harvard Group and latterly the Development Studies Project, have worked behind the scenes, reporting directly to Ministers, it is difficult to identify a direct influence on policy. The only obvious example of a project's work on employment being brought to the President's attention is the CPIS work on the informal sector. Even in that case policy towards that sector does not seem to have improved as a result.

## V. IMPLICATIONS FOR TECHNICAL ASSISTANCE

In a context in which:

- there is little real planning of employment, in the sense of devising and implementing policies to promote it;
- policy makers in line ministries are insufficiently aware of employment issues to make use of labour market statistics that are available;
- employment is not an explicit objective of policy but the reform programme is generally employment-friendly;
- the driving force behind the reform programme is a group of Indonesian technocrats who have the presidential ear and are willing to make political and technical use of advice from foreigners;
- the basis of Indonesia's comparative advantage will gradually change from cheap labour to educated and skilled labour;
- in this context, what is the most useful new direction for employment-oriented technical assistance?

A number of principles seem to follow. (1) Technical assistance must work with the reform programme rather than against it, not only because this increases the chances of affecting policy, but also because the demand for labour is likely to be favoured more by accelerating reform than by holding it back. (2) The emphasis on increasing the demand for labour needs increasingly to be supplemented by an emphasis on improving the quality of the labour force, in preparation for the next phase of Indonesia's development. (3) The aim should be to feed directly into policy, using and developing existing processes rather than trying to devise completely new ones.

To be more specific, a number of recent projects look to be worth building on. The ILO/UNDP project on sectoral employment policy and planning has provided a base, in the form of identification of policy issues, for further work with the line ministries. Rather than putting an adviser in each of the ministries, which would be expensive and of dubious effectiveness, the most useful next step might be to help develop existing inter-ministerial contacts. The most promising of these has already been described - the informal group of employment and human resource development specialists from BAPPENAS, Education, Manpower and Statistics, which meets regularly for plan preparation purposes. If this group could extend its membership, without losing its informality, to include people of a similar level and enthusiasm from the Ministries of Agriculture, Trade, Industry, Transport, Public Works, Tourism and Telecommunications, etc., it could become an effective forum for discussion and promotion of sectoral employment policy.

Technical assistance to such a group would be a delicate matter. It is operating outside the formal structures of government and, to be effective, must continue to do so. There could be no question of ministries nominating new members of the group, who should only be identified and invited by existing members. The emphasis of the group's work would also need to change - away from projections and quantitative frameworks, towards identification and exploration of key sectoral policy issues.

Raising the quality of the labour force, already addressed by a number of ILO projects, is an obvious area of continuing priority. Outside the education system (where perhaps most of the work is to be done) there is an urgent need for improvements in training. Most important is the need for a national training system which will provide incentives to employers to train their own workforce. This has been talked about for years, and, with encouragement from an ILO project, a levy/grant scheme has actually been started in East Java, which in principle is to be generalized to other provinces. This is a welcome development, but consensus has yet to be reached about the form that a national scheme should take, where responsibilities should lie, who should hold the funds, etc.. Unless these issues are resolved quickly there is a danger that the scheme will run aground before it has really started. In addition to a levy/grant scheme, technical assistance could have a greater role in encouraging government to continue to change from provider to facilitator, devising and implementing innovative ways of bringing together those who want training and those who can provide it.

Other areas of useful assistance, also building on past projects, include women's work and non-government organizations. The rapid feminization of the wage-earning workforce, the growth of the putting out system and the continued importance of women as unpaid family workers in agriculture pose challenges to labour administrators and legislators. The framework of laws and regulations affecting women's work is badly in need of review.

NGOs play an interesting and useful role in Indonesian politics and this is likely to continue, but on developmental issues they sometimes achieve less than they might because they prefer confrontation to dialogue. There are a few examples of NGOs working alongside government in a way that is consistent with the economic reform programme, such as the work of Lembaga Studi Pembangunan on a model of integrated urban economic development, together with the local government of Samarinda. Technical assistance could help to develop such a realistic, less romantic approach to employment-related issues by NGOs.

A special type of non-government organization which recent events suggest to be in need of strengthening, and in which ILO has a special interest, is the trade union. At least one of the newly emerging unions, though as yet unrecognized, looks to be worth supporting. Unless Indonesia develops properly organized labour unions, with grass-roots backing from their members, its progress towards the next phase could be sabotaged by anarchy in industrial relations.



Some other areas often suggested for assistance may have a lower priority. Regional employment planning, for instance, is much emphasised nowadays, but it is not clear that it is worth putting a lot more resources<sup>19</sup> into this, until the meaning of employment planning has been clarified at a national level, and until the outcome of the current World-Bank-funded regional manpower planning and training project, which is operating in three pilot provinces, has been assessed. Too often, in the past, regional employment planning has come to consist of regional projections, using data obtained from the centre, rather than finding out what is actually going on in local labour markets.

Help with improvement of data may be another area of lower priority. This is partly because an effective project (the USAIDed Development Studies Project) already exists in the Central Bureau of Statistics, and has done important work on wage and labour force as well as industrial statistics. It is partly because the main problem lies not on the side of supply of statistics but on the side of demand. Assistance in the development of the use of existing statistics for sectoral employment policy is likely to be more useful than yet more changes in questionnaires and survey procedures.

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And it would be a lot of resources if it is to go down to district level.

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