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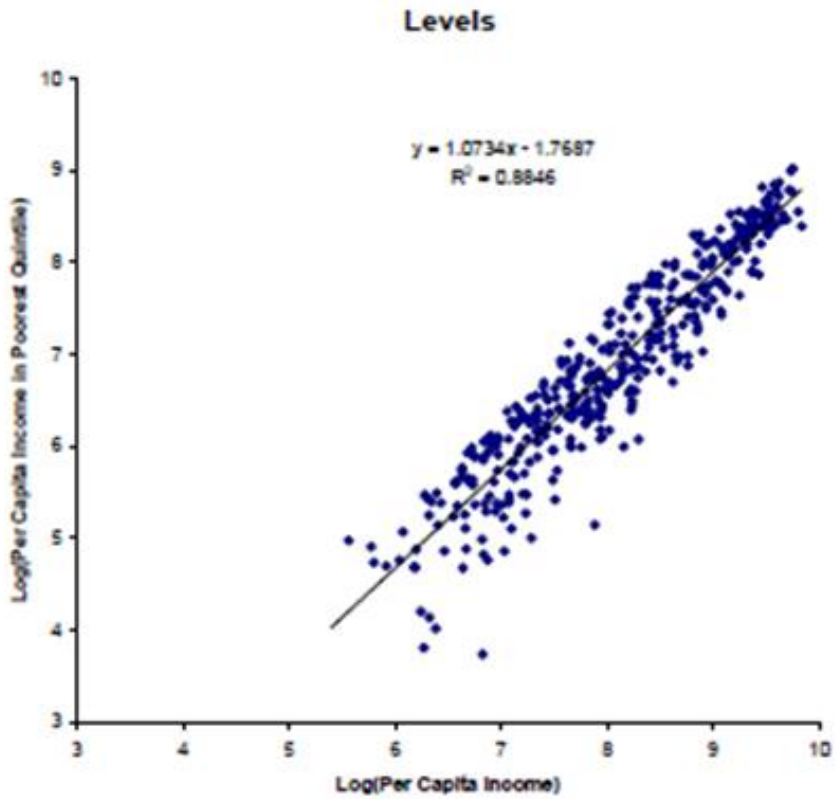
SUPPORT FOR ECONOMIC ANALYSIS DEVELOPMENT IN INDONESIA

Poverty and the Macroeconomy

Jonathan Haughton, Suffolk University – Boston MA 02108, USA
June 12th – 13th, 2013

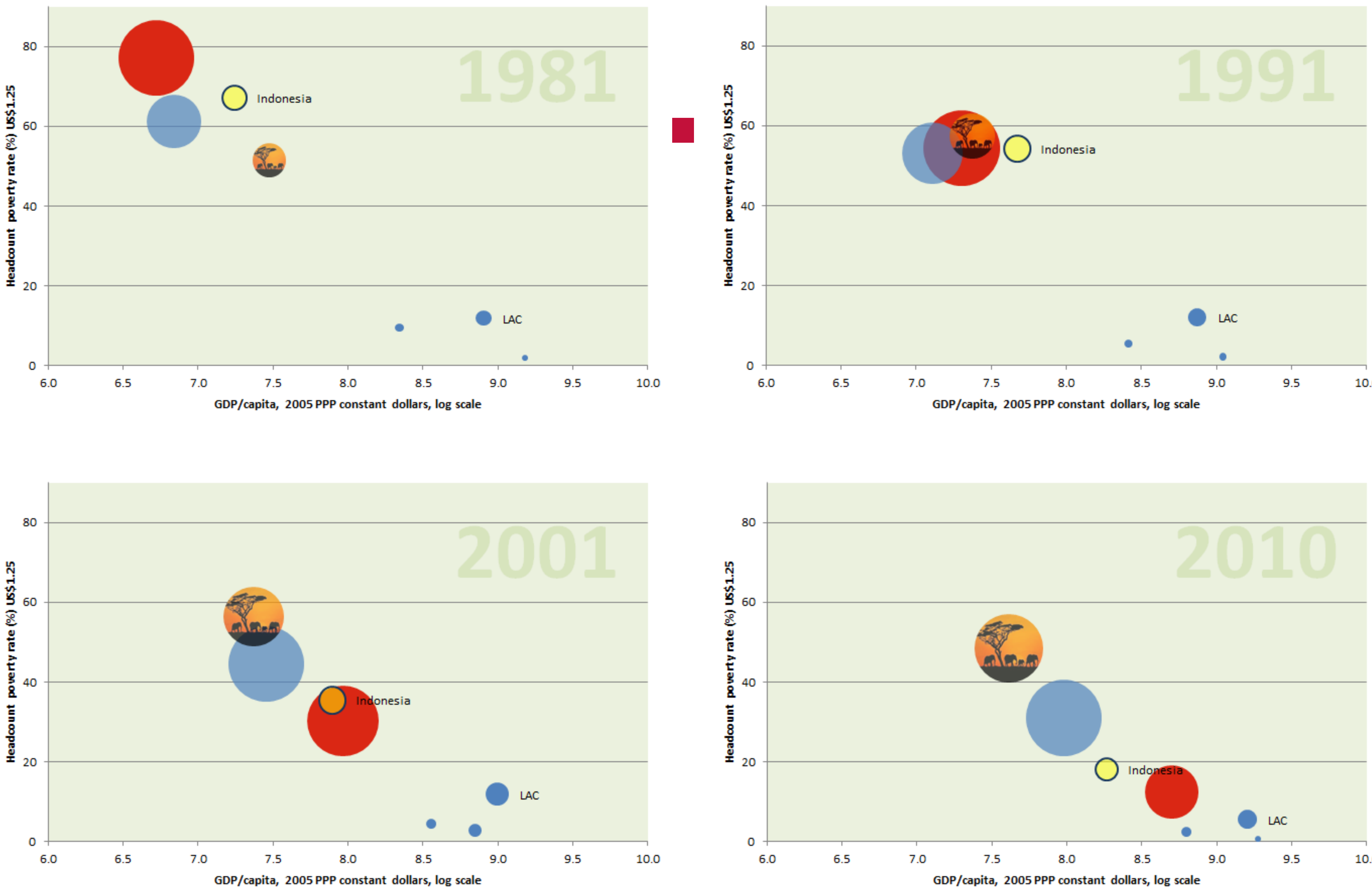
Long run: Growth is good for the poor

- Dollar and Kraay (2002)
  - 139 countries, 1950-1999
  - 418 episodes
  - Robust; other variables don't help



$$\mathrm{Ln(poor)} = 1.07\ \mathrm{ln(inc/cap)} = 1.77.$$

R^2=0.88



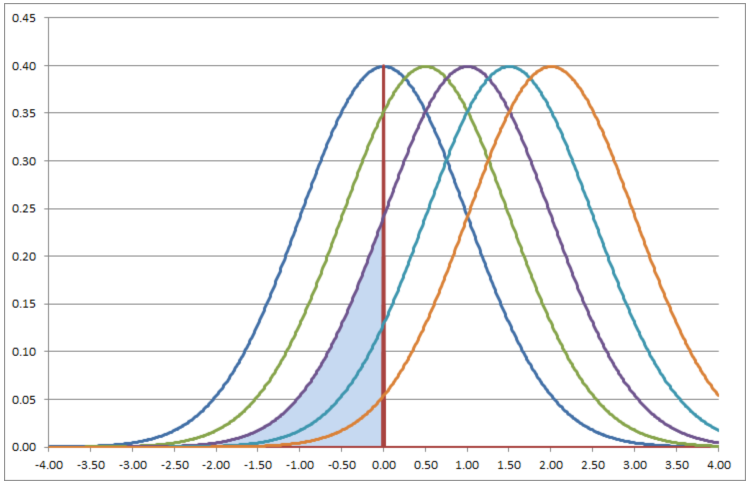
Source: Haughton (2012), "Bubble Rap", CS-BIGS, for animation

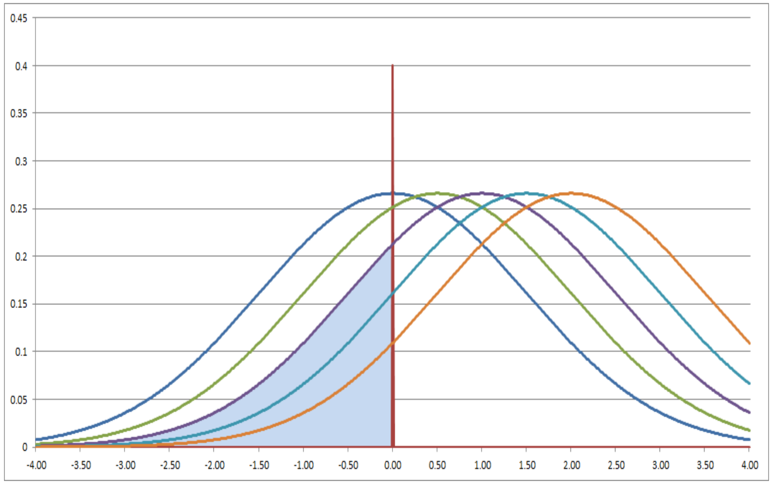
So

- Evidence of continued robust growth is good.
  - ± 6% p.a., with population rising 1% p.a. doubles income every 14 years

Disappointing?

Not surprising: every 8 years …



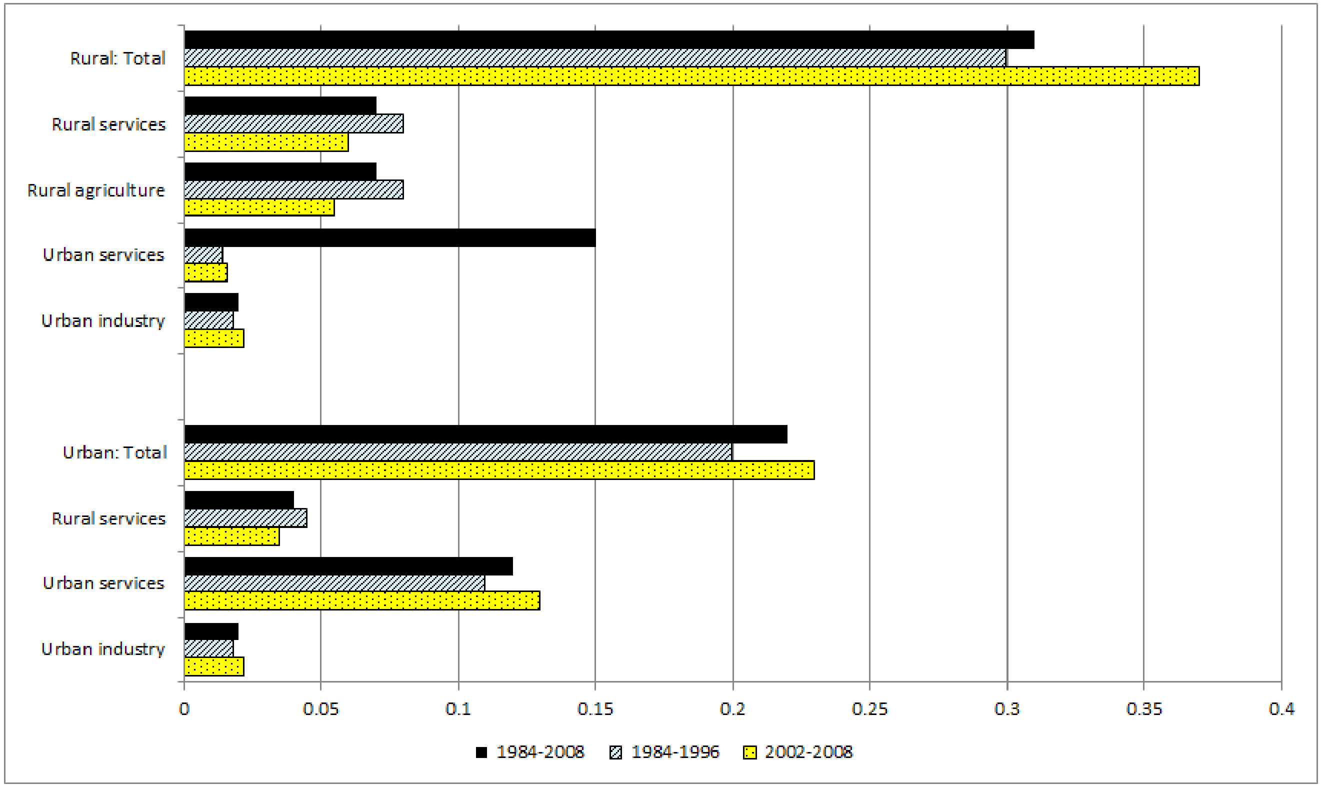


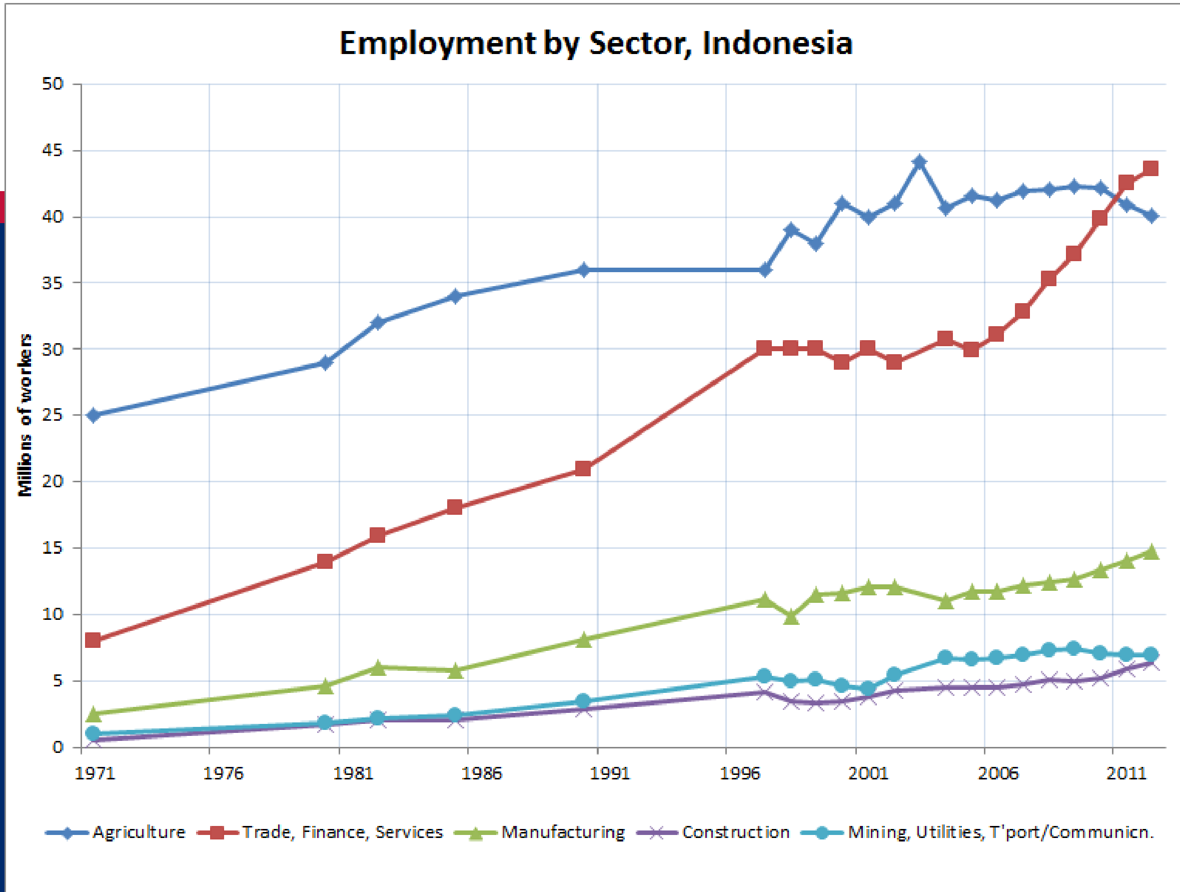
Baseline						Unequal				
Poverty rate						Poverty rate				
50%	31%	16%	7%	2%		50%	37%	25%	16%	9%
Change in poverty rate						Change in poverty rate				
	-19%	-15%	-9%	-4%			-13%	-12%	-9%	-7%

- But inequality bad for poor too (Ravallion)

Not all sectoral growth is equal

- Highly country-specific
- Controlling for starting point, poverty growth elasticities (= $\Delta P_0/g$) unchanged pre/post Asian Financial Crisis
  - Suryahadi, Hadiwidjaja, Sumarto. 2012
- Tough in city; and Indonesia is now half urban





	Level 2012	Change 1971-1990	Change 1990-1997	Change 1997-2004	Change 2004-2012
	m	%	%	%	%
Agriculture, Forestry, Fishery	**40**	32%	0%	69%	-3%
Trade, Finance, Services	**44**	38%	60%	11%	71%
Manufacturing	**15**	16%	20%	-2%	21%
Construction	**6**	7%	9%	5%	11%
Mining, Utilities, Transport & Communication	**7**	7%	12%	21%	1%
Total Employed	**112**	34	15	7	18
Unemployed	**7**	-2	2	6	-3
Labor force	**119**	33	17	13	15

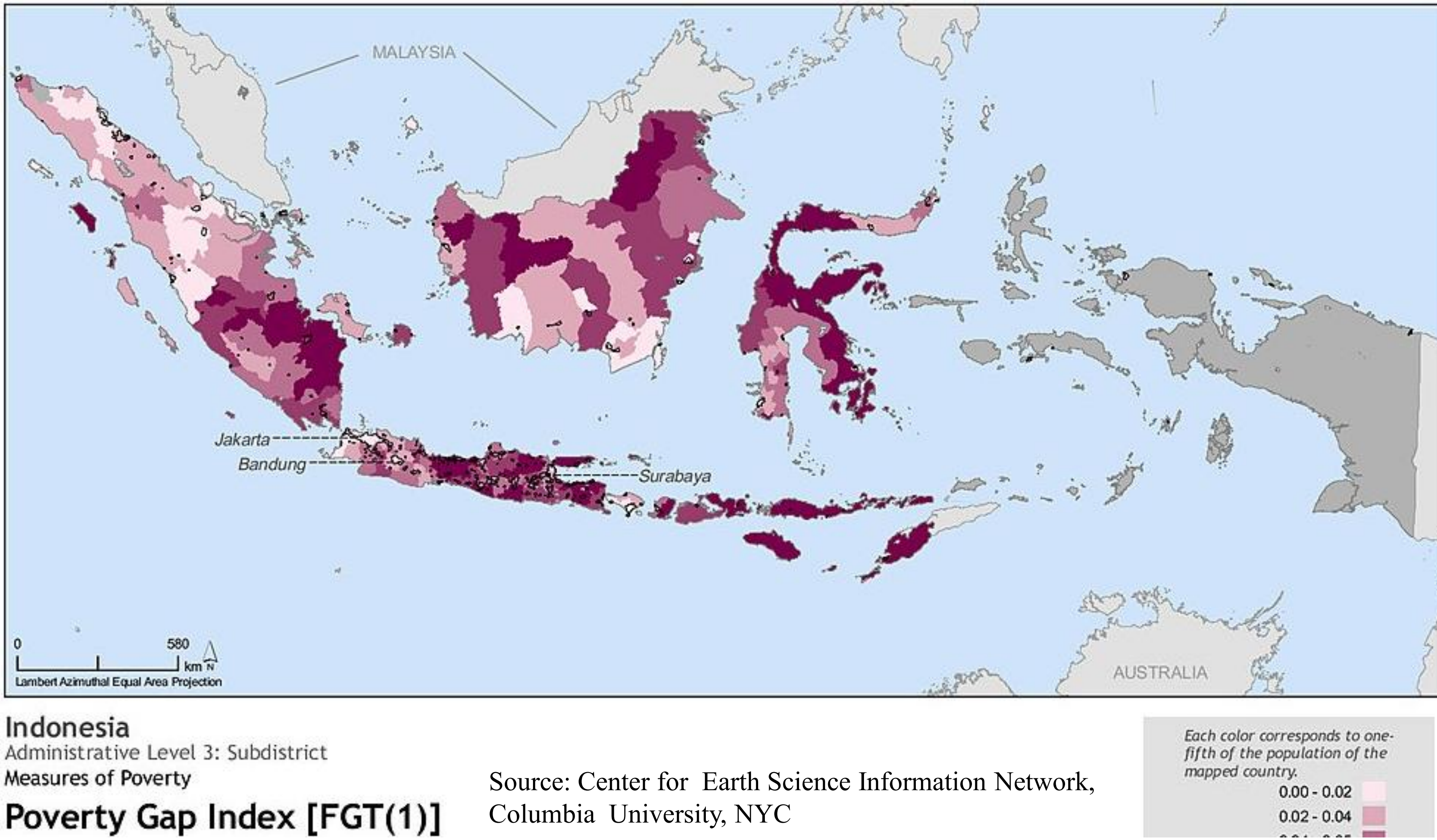
Own-Account and Family Workers per 100 wage and salaried workers

	c. 1990	c2008
Cambodia	555	478
Indonesia	**177**	**191**
Malaysia	44	29
Philippines	90	83
Thailand	247	118
Vietnam	489	289
India		525
Bangladesh	558	613

Poor progress at creating formal-sector jobs. Why?

Source: ADB. Framework of Inclusive Growth Indicators2012, p.59

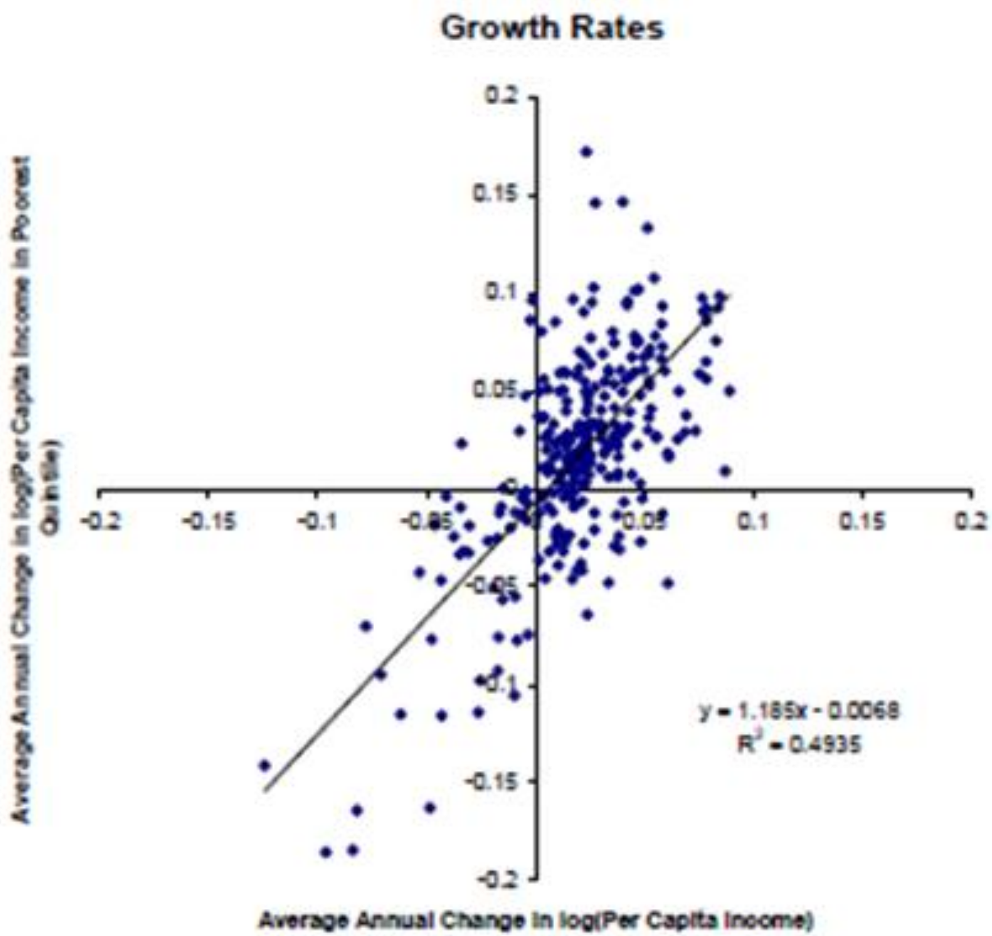
Geographic disparities persist



Source: Center for Earth Science Information Network, Columbia University, NYC

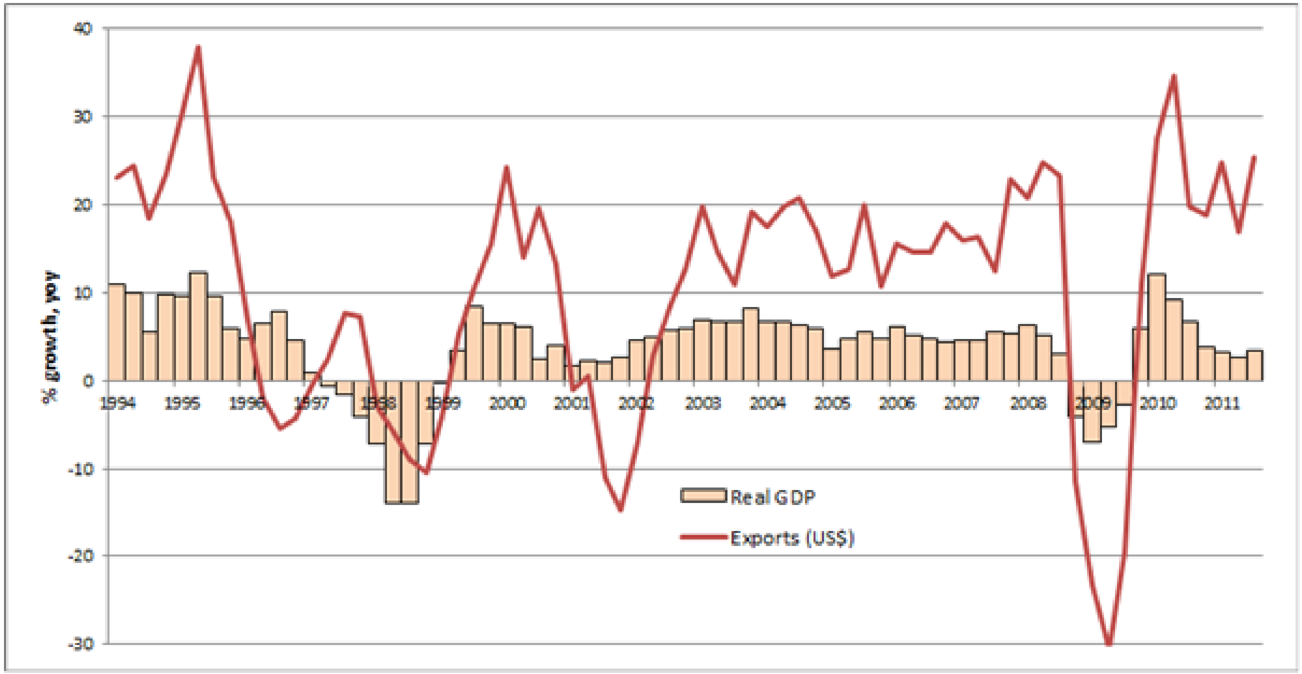
CV of poverty rate (by province): 2007: 0.41; 2009: 0.44; 2012: 0.42.

Short-run: Weaker growth-poverty link



Case: Recession and Poverty in Thailand

- Links between external shocks and poverty are weak, unclear, country- and time-specific
  - Thailand 2008-09: Exports fell 19%, tourists 14%, GDP 2.3% due to “great recession”



Yet: Expenditure was maintained

- Shock was sharp but short
  - Recession kept some prices in check
  - Consumption smoothing
  - Active government response
- Losers: Young wage workers in Bangkok

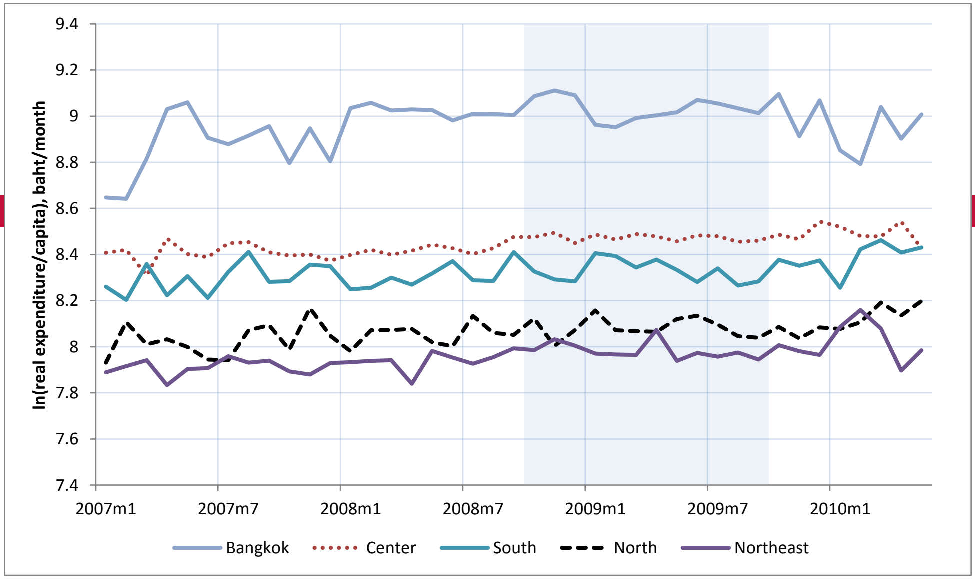


Figure 6.1. Log of real per capita expenditure by region, Thailand, 2007:M1 – 2010:M6, deseasonalized
Source: Thailand Socio-Economic Surveys of 2007, 2008, 2009, and 2010. Shaded area marks period of recession.

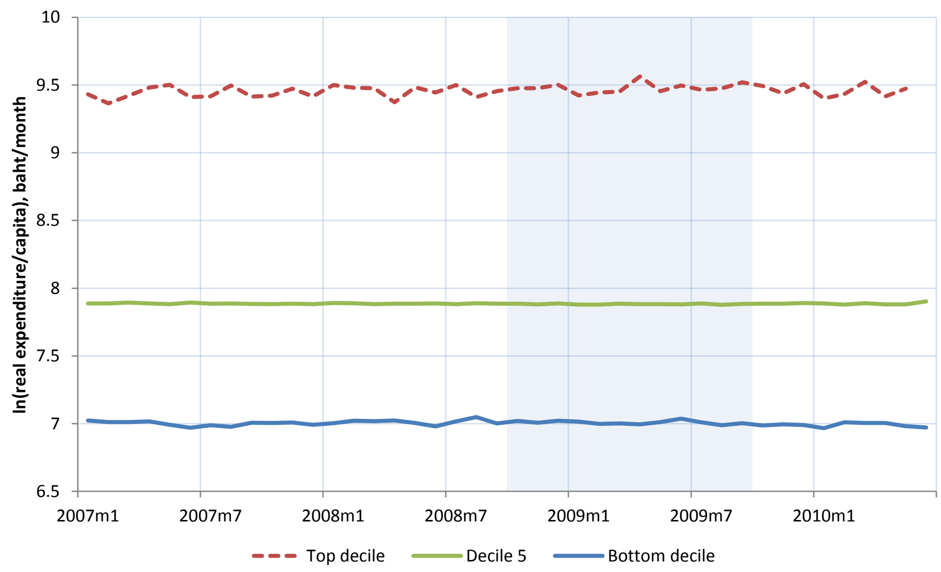


Figure 6.2. Log of real per capita expenditure by selected expenditure per capita deciles, Thailand, 2007:M1 – 2010:M6, deseasonalized
Source: Thailand Socio-Economic Surveys of 2007, 2008, 2009, and 2010. Shaded area marks period of recession.

Table 3. Measuring the Impact of the 2008-09 Recession on Log Real Expenditure per capita by region and household size

	Real expenditure per capita	Change in log of real expenditure per capita compared to 2007			Number of households
		2008	2009	2010	
	baht/quarter				
All Thailand	4,068	**-0.073**	**0.034**	**-0.044**	176,141
		0.00	*0.00*	*0.00*	
Memo: nominal exp/cap	4,248	**-0.027**	**0.087**	**0.046**	176,141
		0.00	*0.00*	*0.00*	
Region 1: Bangkok	7,973	**0.304**	**0.135**	**0.259**	10,520
		0.00	*0.00*	*0.00*	
Region 2: Center	4,686	**-0.060**	**0.050**	**-0.031**	51,442
		0.01	*0.00*	*0.00*	
Region 3: North	3,226	**-0.131**	**0.009**	**-0.097**	43,389
		0.00	*0.00*	*0.00*	
Region 4: Northeast	2,926	**-0.107**	**0.019**	**-0.067**	45,521
		0.00	*0.00*	*0.00*	
Region 5: South	4,164	0.012	0.026	0.049	25,269
		0.49	*0.40*	*0.19*	
Urban	6,037	**-0.030**	**0.036**	**-0.006**	108,690
		0.00	*0.00*	*0.00*	
Rural	3,184	**-0.125**	**0.025**	**-0.088**	67,451
		0.00	*0.00*	*0.00*	
Very poor (deciles 1-2)	1,321	-0.017	**0.010**	**-0.020**	20,546
		0.06	*0.00*	*0.00*	
Memo: % very poor		*21.1*	*19.5*	*17.6*	

- Thai government: active

Table 8. Details of Stimulus Package 1

	Amount (m baht)	% disbursed, Mar-May 2009
Total mid-year supplementary budget	**116,700**	**47**
of which:		
1. Economic recovery and confidence restoration	**37,464**	
1.1 Stimulus Checks of 2,000 baht for low-income earners Living cost subsidy for income earners of < 15,000 baht: 8.1m persons with social security, 1.3m public sector officials, including pensioners	18,970	93
1.2 Household subsidies Extension of subsidies for utilities and transport for a further 6 months	11,409	74
1.3 Agricultural water resources development	2,000	10
1.4 Road construction in villages and rural areas (490 km)	1,500	0
1.5 Subsidies for consumer goods	1,000	4
1.6 Tourism promotion	1,000	45
1.7 Small water resource and water management	760	
1.8 Small and medium enterprise (SME) promotion	500	27
1.9 Economic confidence restoration and national image promotion	325	1
2. Revenue creation, Quality of life enhancements, and social Security	**56,004**	
2.1 Free education program for the first 15 years Education to be free for first 15 years; subsidies for uniforms, books. Benefits 10m students.	19,000	81
2.2 Sufficiency economy promotion of society development fund Increased funding for 78,358 villages	15,200	33
2.3 Monthly allowance for senior citizens 500 baht per months for 6 months, for those aged 60 or above not currently receiving government support; 5 million beneficiaries.	9,000	67
2.4 Unemployment reduction and labor potential promotion One-month training and 3 months of living cost allowances. 240,000 persons affected.	6,900	2
2.5 Health care promotion Subsidy of 600 baht per month to 830,000 persons.	3,000	60
2.6 Civil servant and police officers housing scheme	1,809	1
2.7 Clinic and health station development	1,096	<1
3. Budget management: contingency fund	**4,090**	**0**
4. Treasury cash repayment	**19,139**	**0**

Sources: Table 2 in Jitsuchon (2010); and World Bank and ASEAN Secretariat (2010), using data from Bank of Thailand.

Were the Thai measures effective?

- Did the SP1 package cushion the effects of the external shocks?
  - Modest stimulus
  - Offset 1/8 (direct) to 1/3 (direct, indirect, induced)
- Imperfect targeting
  - Yet poor were helped
    - Half in poorest three deciles gained!
    - Biggest help in N and NE; hardest to do in Bangkok

Table 9. Effects of Stimulus Package 1 on income, 2009

	Baseline	Stimulus	Shocks	Net
	baht per capita per year	%	%	%
Decile				
1	12,836	**5.2**	**-2.1**	**3.3**
2	21,875	**3.1**	**-4.3**	**-1.0**
3	28,285	**2.4**	**-4.7**	**-2.2**
4	35,063	**2.0**	**-5.3**	**-3.1**
5	42,966	**1.6**	**-6.1**	**-4.4**
6	52,856	**1.3**	**-6.8**	**-5.4**
7	66,685	**1.0**	**-7.2**	**-6.1**
8	87,008	**0.8**	**-7.7**	**-6.8**
9	121,895	**0.5**	**-8.0**	**-7.4**
10	290,707	**0.2**	**-8.9**	**-8.6**
Overall	**76,012**	**0.9**	**-7.5**	**-6.6**
Region				
Bangkok	158,736	**0.4**	**-7.5**	**-7.1**
Center	84,528	**0.9**	**-8.0**	**-7.1**
North	61,473	**1.0**	**-5.4**	**-4.4**
Northeast	52,225	**1.3**	**-5.7**	**-4.3**
South	80,923	**0.8**	**-12.3**	**-11.4**
Area				
Urban	117,743	**0.6**	**-7.2**	**-6.5**
Rural	57,333	**1.2**	**-7.8**	**-6.6**
Group				
Children	58,811	**1.5**	**-7.6**	**-6.1**
Women	77,621	**0.9**	**-7.4**	**-6.4**

Source: See text for explanation and sources.

What could Indonesia do?

- Note: Not in crisis mode now; makes change harder

1. Growth … maintain
2. Subsidies: fuel and electricity … cut
3. Social protection … expand
4. Minimum wage/labor market … keep flexible
5. Import controls on food … end
6. Infrastructure … needed

Growth

- Poor are helped when labor-intensive sectors expand (Papanek 2005: *The Poor of Indonesia*)
    - 1970s: agriculture; then industry (sort of); now services
    - Missed the boat on labor-intensive manufacturing (Chinese style)
- Steady macro policy helps: trade, exchange rate, inflation, budget
- Complacency?
    - FDI: 2% of GDP; but 4% in China, Malaysia
    - JBIC: Ranked #3 (after China, India) for Japanese FDI, but cautions on rising wages, shaky infrastructure

Subsidies: fuel and electricity

- Very long history; typical of oil producers
  - But net oil importer since 2004
- Some other countries too
  - 2005: >2% GDP in Azerbaijan, Bolivia, Ecuador, Egypt, Indonesia, Jordan, Yemen
- Large fraction of budget – see table
  - Crowds out other spending, including infrastructure
    - Enough to spook ratings firms: S&Ps cut BB+ from positive to stable on May 3, 2013; stalled reform and “weaker external profile”. Inefficient
- Use too much energy
    - But embedded in prices, and investment decisions
- Weakly targeted
    - Most benefits flow to non-poor

	2012 Rp trn	% of revenue	% of GDP	2013
Energy subsidies	307	23%	3.7%	274
Of which:				
Fuel	212	16%	2.6%	194
Electricity	95	7%	1.2%	81
Memo items:				
Domestic revenue	1,325	100%	16.1%	1,525
Of which:				
Central government spending	992	75%	12.0%	1,154
Transfers to regions	480	36%	5.8%	529
Deficit	145	11%	1.8%	153
Memo: Social Assistance	*64*	5%	0.8%	74

Source: Cornwell & Anas 2013; BPS (for social assistance)

- Problem: High *proportion* of spending by poor, even if, absolutely, most benefits go to rich.
  - Spending pattern similar to Thailand, for instance – see incidence analysis
- Difficult to undo
  - May 14: Proposed raising
    - Pgas 33% to Rp6,000/l,
    - Pdiesel 22% to Rp5,500/l.
    - Will add to inflation, which hits in short run (but not long-run).
- Politically, only replaceable if one can find better ways to target the poor

Table 4. Composition of Total Impact by Consumption Quintile
(In percent of total household consumption)

	Consumption Quintiles					
	Bottom	2	3	4	Top	All households
Total Impact	6.4	6.2	6.2	6.3	6.4	6.2
Direct Impact	2.8	2.7	2.7	2.8	2.9	2.8
Gasoline	0.1	0.2	0.3	0.4	0.7	0.3
Kerosene	1.7	1.3	1.2	1.0	0.6	1.1
LPG	0.3	0.3	0.3	0.3	0.4	0.3
Electricity	0.8	0.9	1.0	1.1	1.2	1.1
Indirect Impact	3.6	3.5	3.5	3.5	3.5	3.3

Source: Authors' computations based on country reviews.

Note: Impacts are averages of percentage impacts across all country studies based on a $0.25 per liter increase in fuel prices.

Table 5. Distribution of Subsidy Benefits by Consumption Quintile
(In percent)

	Consumption Quintiles					
	Bottom	2	3	4	Top	All households
Total Impact	7.1	11.4	16.2	22.5	42.8	100.0
Total Direct Impact	7.1	10.7	14.0	19.9	47.6	100.0
Gasoline	3.0	5.7	9.7	19.4	61.3	100.0
Kerosene	19.0	19.7	20.6	20.1	20.6	100.0
LPG	3.8	7.6	12.6	20.8	53.8	100.0
Indirect Impact	7.3	11.7	16.3	22.6	42.0	100.0

Source: Authors' computations based on country reviews.

Note: Impacts are averages across all country studies.

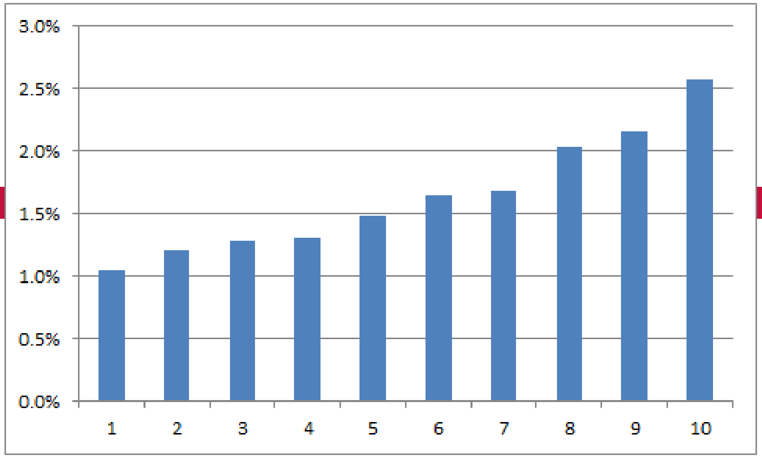
- 20 countries, 2005-2009
- Direct effect: 2.6% of household consumption; indirect effect, 3.3%.
- Source: Granado, Coady, and Gillingham. The Unequal Benefits of Fuel Subsidies. IMF, 2010

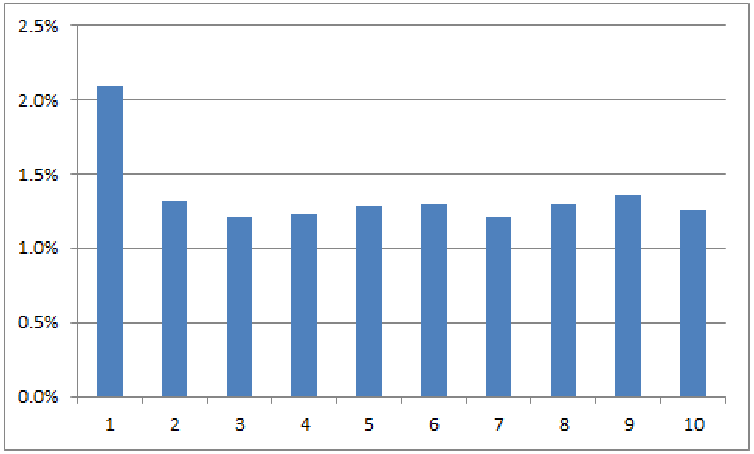
Expenditure/capita deciles	Expenditure	Subsidy	% exp/inc	% subsidies
1 ... from minimum (424 baht/(	18,213	190	1.0%	1.7%
2 ... from 1,847 baht/capita/mc	24,949	302	1.2%	2.6%
3 ... from 2,299 (	29,927	385	1.3%	3.4%
4 ... from 2,699 (	34,909	459	1.3%	4.0%
5 ... from 3,130 (	40,534	602	1.5%	5.3%
6 ... from 3,630 (	47,212	775	1.6%	6.8%
7 ... from 4,259 (	55,950	940	1.7%	8.2%
8 ... from 5,103 (	68,169	1,386	2.0%	12.1%
9 ... from 6,370 (	88,718	1,916	2.2%	16.7%
10 ... from 8,801 (1	175,032	4,494	2.6%	39.2%

Income per capita deciles	Income	Subsidy	% exp/inc	% subsidies
1 ... from minimum (	14,324	299	2.1%	2.6%
2 ... from 1,954 baht/capita/mc	27,497	363	1.3%	3.2%
3 ... from 2,616 (	34,797	421	1.2%	3.7%
4 ... from 3,195 (	42,408	525	1.2%	4.6%
5 ... from 3,876 (	51,050	659	1.3%	5.8%
6 ... from 4,655 (	61,871	807	1.3%	7.0%
7 ... from 5,711 (	76,489	928	1.2%	8.1%
8 ... from 7,122 (	97,026	1,263	1.3%	11.0%
9 ... from 9,293 (1	134,834	1,833	1.4%	16.0%
10 ... from 13,909 (1	344,817	4,347	1.3%	38.0%

Regions	Expenditure	Subsidy	% exp/inc	% subsidies
1: Bangkok Metropolis	101,456	2,648	2.6%	
2: Central (excluding Bkk)	63,364	1,334	2.1%	
3: North	48,502	918	1.9%	
4: Northeast	45,563	715	1.6%	
5: South	63,872	1,123	1.8%	

Areas	Expenditure	Subsidy	% exp/inc	% subsidies
Urban	79,141	1,844	2.3%	
Rural	47,626	785	1.6%	





- Thailand: 4.5 baht (US$0.15)
- Note expenditure vs. income incidence

Social Protection

- Post AFC strategy:
  - Food; jobs; access to health, education; credit for small enterprises. [Basri & Papanek]
- Experience elsewhere: Can be effective
  - Conditional cash transfers:
    - Mexico: Progresa/Oportunidades [Paul Shultz; rigorous impact evaluation]. Brazil. Bangladesh [Faria Huq]
- Programs:
  - PNPM (Program Nasional Pemberdayaan Masyarakat; Nat. Program for Community Empowement).
    - Self targeting; funds go directly to local body. Cost effective.
  - Program Keluarga Harapan (Family Hope): Rp1trn in 2009
    - To expand to 3m hh by 2014, 6.5m by 2015; started 2007 for 388k (school, health); now 1.2m in 25 provinces. Benefit c. 10%
    - Does it work? Well targeted? Efficient?
  - Rice for poor (RASKIN): Rp13trn; School operations assistance (BOS): Rp19 trn; community health (Jamkesmas): Rp5trn; Direct cash assistance (BLT): 2008 Rp14 trn

	2009, Rp trn
PNPM	16
RASKIN (rice)	13
BOS (school operations)	19
Jamkesmas (community health)	5
BLT (cash assistance)	14 (in 2008)
PHK (Conditional transfers)	1

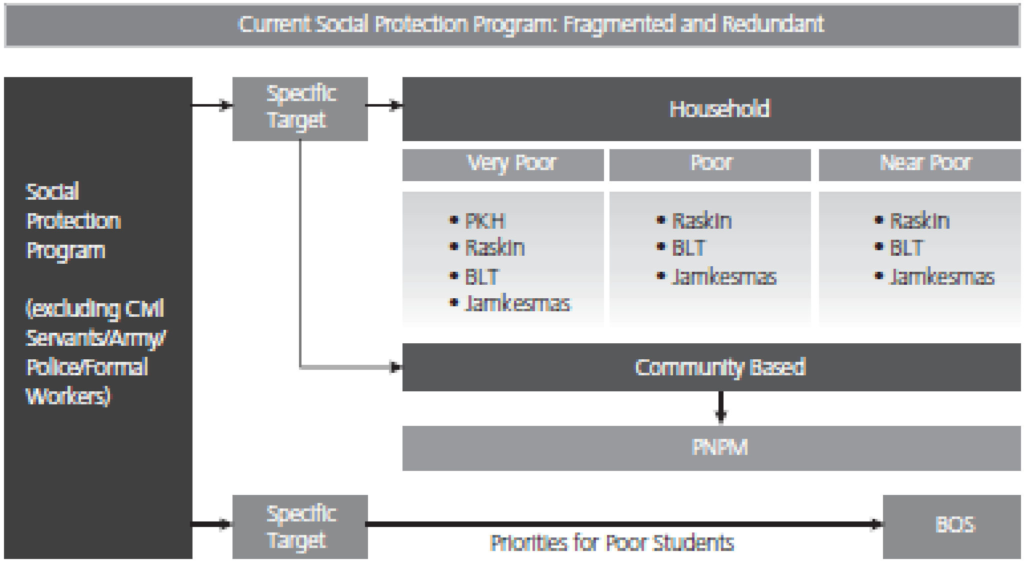
Modest programs
Targeting not great

Table 2. Targeting of Five Indonesian Poverty Alleviation Programs

Program	Poor Households (%)	Near Poor Households (%)	Non-Poor Households (%)	Total (%)
Askeskin	24.41	24.03	51.56	100
BLT	26.02	24.07	49.91	100
BOS	16.65	20.81	62.54	100
Kartu Sehat	21.62	21.22	57.16	100
Raskin	21.02	22.28	56.70	100

Askeskin is health insurance for the poor, a government program.
BLT = Direct Cash Assistance, BOS = School Operations Assistance.
Source: World Bank (2008).

Figure 1. Current Social Protection Program

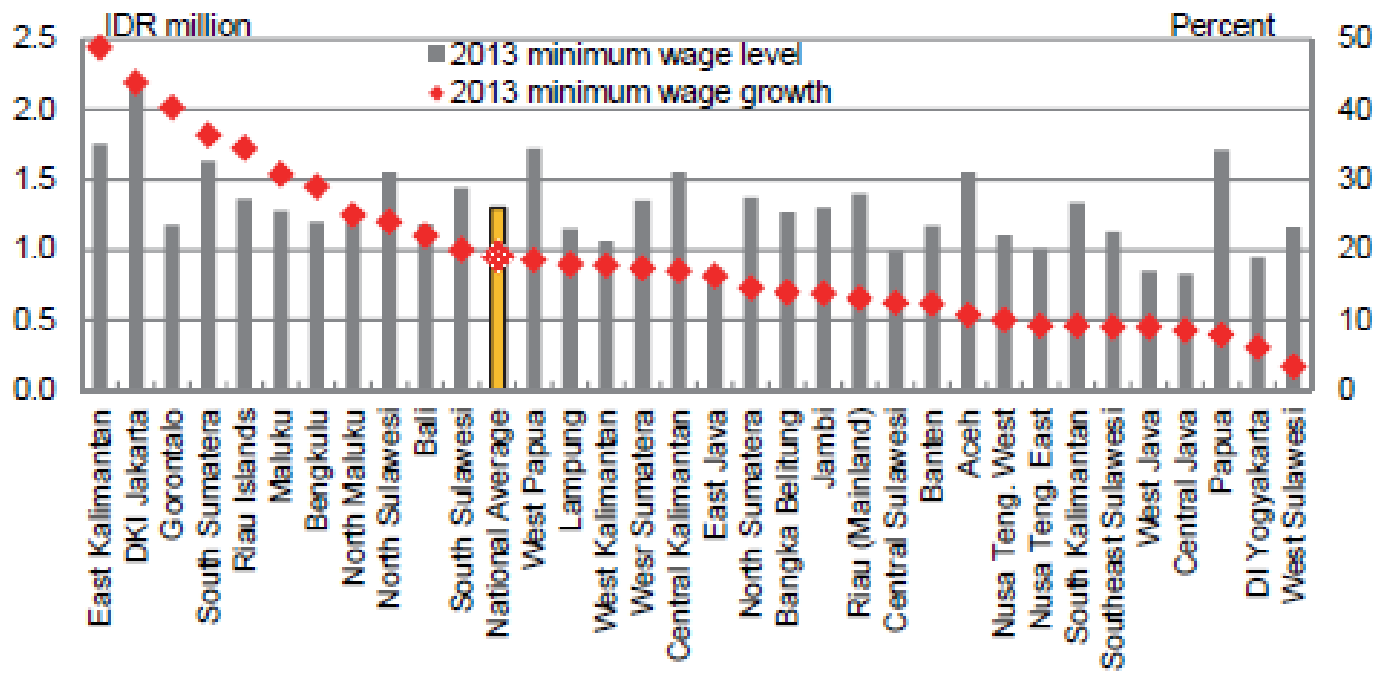


BLT = Direct Cash Assistance, BOS = School Operations Program, PKH = Family Hope Program, PNPM = National Community Empowerment Program.
Source: Transition Team (2009).

- Challenges:
  - Integrating social assistance
    - Identifying the poor
  - Widening coverage of contributory schemes
    - Cover (some) formal, not informal
      - [Table from Basri & Papanek 2010]

Minimum wage: recently raised a lot

Figure 26: Large variation in regulated minimum wage increases across provinces
(level in million Rupiah, and annual nominal growth, percent)

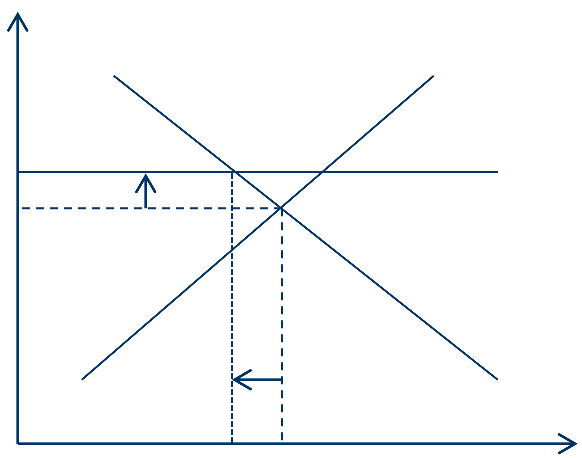


Note: National average is the simple average across 33 provinces
Source: CEIC; World Bank calculations

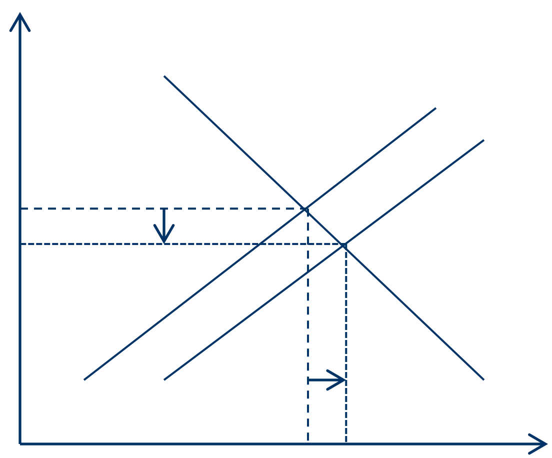
- WB, Indonesia Economic Quarterly, March 2013.

Analysis: minimum wage

- Shrinks employment in covered sector, wages fall elsewhere; prices may rise; benefits “insiders”
  - just 39% of workers earn wages (2012; WB)



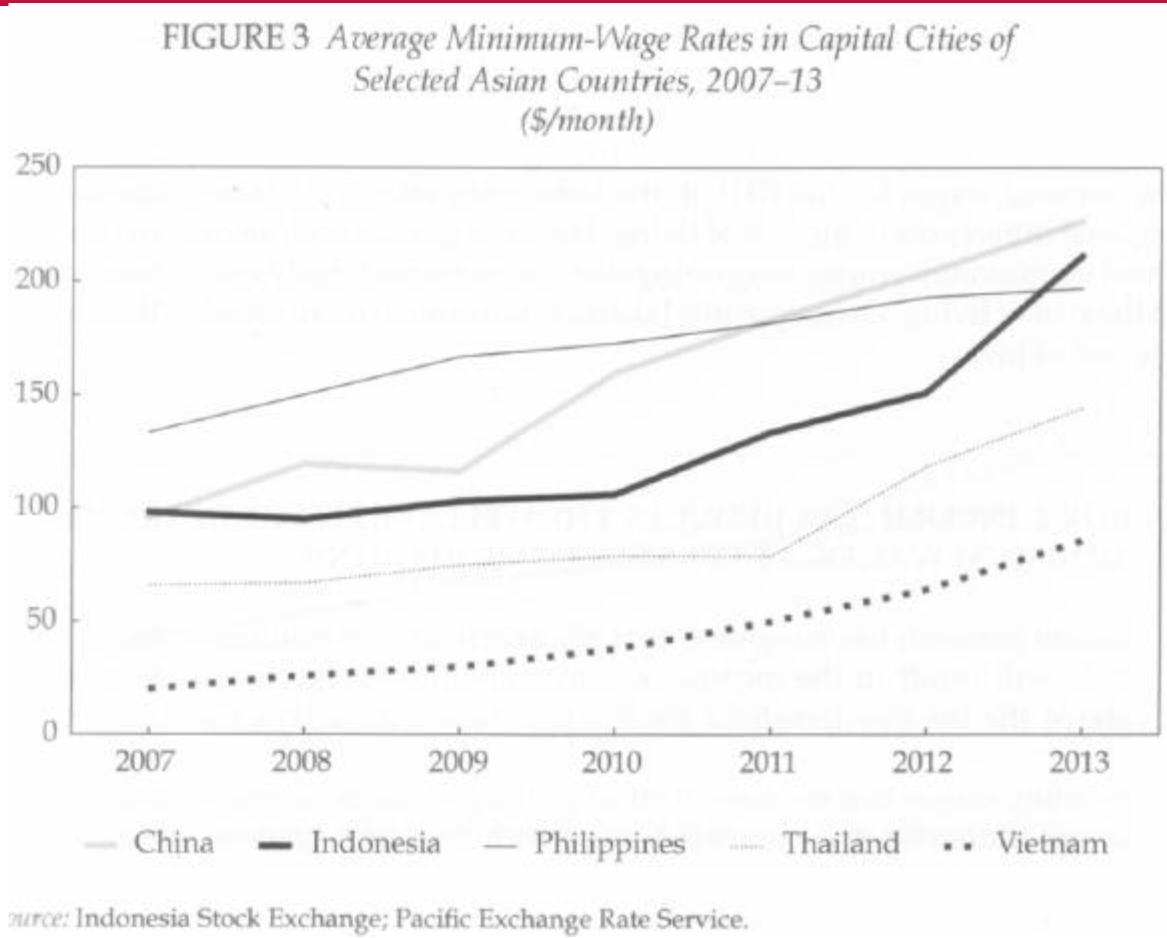
Covered sector



Uncovered (informal) sector

Minimum wage: Comments

- Not a *direct* problem for most MNCs in Indonesia, because they already pay more; but among highest in region, so long-term cost
- Hits domestic formal sector hardest;
- Exemptions; but cold comfort
- Signals power of labor, which worries investors
  - Follows restrictions on “outsourcing”

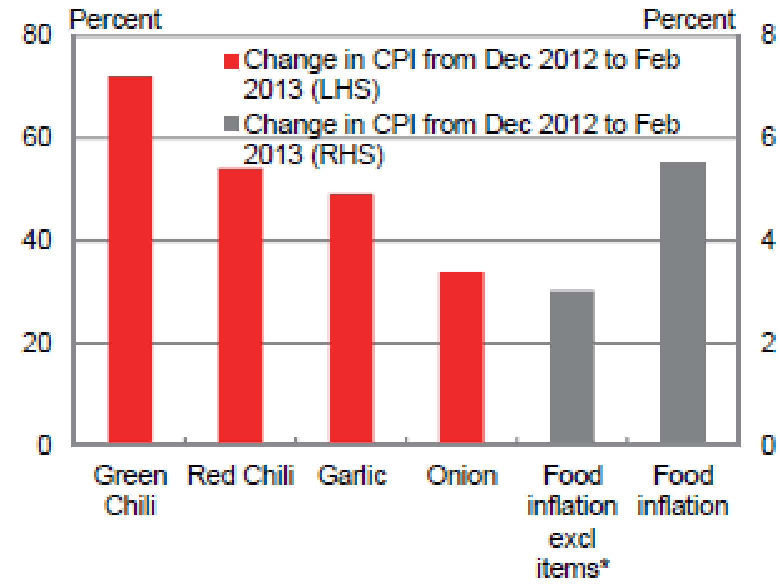


- Source: Cornwell and Anas, “Survey of Recent Developments”, BIES, 2013

Import controls

- Put in place sporadically
  - Can raise price of food, which hits poor
  - Jan-June 2013: 13 items (10 food) restricted, including beef, onions, chilies. 5% of food basket, but 50% of recent food inflation (WB p.13, Mar 2013)

Figure 24: ...with some prices recently soaring
(price inflation of the first 2 months of 2013, percent)



Note: *Food inflation excl items refers to the growth in overall food inflation after excluding green and red chili, garlic and onion. Prices of other items affected by recent restrictions were not available
Source: BPS; World Bank staff calculations

Infrastructure

Transport, irrigation, water, sanitation, electricity, telecommunications

- Spending is modest
  - 3% of GDP; down from 6%+
    - Compare with 7%+ in China, Thailand, Vietnam.
  - Matters for poor
    - Piped water, sanitation, help, especially at margin
    - At the margin, roads expand to poorer areas [van de Walle on Vietnam]
    - Only 63% of rural population has access to electricity

Conclusion

- Growth is good; keep it central
- Strengthen social protection
  - Urbanization makes it harder; beyond public works
  - Finance via lower energy subsidies
- Keep testing
  - Conference has some examples
  - What really works?