CHAPTER XIV
THE PRIVATE SECTOR AND PUBLIC SECTOR

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THE PRIVATE SECTOR AND PUBLIC SECTOR

PART I.

THE PRIVATE SECTOR

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PART II.

THE PUBLIC SECTOR (AN OUTLINE)

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PART I
THE PRIVATE SECTOR

1. The Colonial Legacy

The composition of the private sector and the problems today still reflect the legacy of the colonial system. Before World War II the modern sector was dominated by the Dutch companies, with a number of medium-scale Chinese companies on the ascendancy. The Dutch companies were engaged in plantation, mining, international trade, banking, shipping, manufacturing, construction, etc. Many Chinese companies, diversifying out of trade, entered medium-scale manufacturing of consumer goods; their plants are often located in provincial towns in Java. Some Chinese business houses, however, also ventured in plantation, such as for sugar, tea and coffee.

The native Indonesians living in rural areas in those days occupied the traditional sector of subsistence and smallholders' agriculture, petty trade, local transportation, handicraft, etc. In increasing numbers, as population growth diminishes available land per farmer, and especially in Java, the village people became plantation laborers, construction workers, paid agricultural hands, or found other non-farm employment.

In the cities, members of the Indonesian elite and educated class started working in the colonial administration. Modern education was not widely available for them as yet and therefore these job opportunities were still adequate. Most of such employment, however, was limited to clerical duties and mid-level functions.

Although the indigenous Indonesians shared some administrative power with the Dutch, they were not in the position to play a significant role in the modern sector. When World War II broke out, there were only some hundreds of university trained medical doctors, lawyers and engineers, who could be easily absorbed in government service. There were virtually no trained economists and managers, and the private sector was not even attractive for employment. Before the outbreak of the war there were a handful of indigenous Indonesians who did well in textile and commodity trade, and subsequently went into manufacturing, but their companies did not attract many educated Indonesians much.

The swelling urban population below the elites, many with some primary education from Moslem schools, drifted into trade, home industry and handicraft, such as textile weaving and batik, and became the nucleus of a nascent native indigenous middle class. They became the "underdogs" in the colonial commercial hierarchy, below the Chinese trading class. That is why they were inclined to organize themselves in socio-economic associations and took part in the nationalist (i.e., emancipation) and later the independence movement. Such associations were often based on Islam as a binding force. These were the first challengers of the Chinese hegemony in trade.

The Chinese, representing some two to three per cent of the population, became the middlemen in the economy, linking the modern Dutch controlled economy with the traditional sector. The Chinese migrated into the Dutch East Indies in the nineteenth century to become employed as coolie labor in (tin) mines or became traders and middlemen. The Dutch colonial policy appeared to welcome these migrants because of the need to have an alien, but non-western, middle class between the Dutch and the indigenous population. A similar phenomenon occurred in British colonies. The Dutch, in their efforts to subdue the native sultanates, also tried to curb the native ocean going mercantile fleet.

The Dutch were never quite laissez faire in the administration of their colonies. The East Indies first became an exclusive trading area of the V.O.C., a private Dutch trading company with a monopoly. At a later stage the Dutch government took over the administration of the territory from this company. The inclination for direct intervention and involvement in business continued.

Apart from private interests in mining, plantation and trading, the colonial government over the years invested in a number of state enterprises, usually in the public utilities field, like electricity generation and distribution, railways, postal and telegraph services, the Java Bank, the rural credit bank, interisland sea transportation, participation in mining and petroleum exploration, etc. Some educated Indonesians hold mostly in sub-managerial positions in such enterprises.

The netherlands East Indian Government was not necessary holding lock-out in the latter half of the nineteenth century. It was laissez faire in mining, for instance. The person who discovered petroleum, tin, coal, manganese, nickel, bauxite, asphalt, among others, was given the mining license without limitation. This laissez faire policy was given up by Act of Mining in 1899 and the Mining Regulation in 1906. By the change of the former in 1919, the right of mining and inflammable gas came under government control.

American and European companies had invested in the industrial sector in Indonesia from the late nineteen twenties into the thirties, for example, Goodyear (tire), Union Carbide (dry batteries), Unilever (margarine and toiletries), Philips (electric bulbs) and British American Tobacco (B.A.T., in cigarettes). A more open economic policy was adopted to cope with increasing population pressure and the worsening economic and political situation in the world.

2. The Japanese Occupation

The Japanese occupation during World War II produced a great number of vacancies of functions previously occupied by the Dutch. For the first time it gave the Indonesians a chance to rise into administrative and managerial ranks, as the Japanese war time administrators could not fill them all. The Japanese also administered these occupied enterprises as government-controlled entities as these all had to be integrated in the war mobilization scheme.

This wartime experience was very crucial for the learning process of the Indonesians to man the modern sector economy. The occupation also meant complete nationalization of almost all enterprises in the modern sector. The distance between government and enterprise administration was narrow. Of course for the Indonesians it was not a good schooling in normal enterprise management working for a profit in a competitive environment. However, with all these shortcomings it laid the foundation of the public sector in the Republic of Indonesia. Some of the orientations (and habits) of management and administration in a war time situation continues even until today, e.g., target orientation versus efficiency.

3. Ideologies of the Independence Movement

The independence movement was to a significant extent inspired by socialist ideas of how to construct, or reconstruct from a colonial past, a national economy. It was extremely reform oriented, even "revolutionary" (i.e., destruct and build anew), and as an anti thesis of the past, or the status quo, it incurred an anti-private-enterprise bias. It placed great emphasis on the role of the state with its political power for changing structures and systems and therefore regards state enterprises as instruments of state policy to reconstruct the economy and society.

In the rural and traditional sector the favored socio-economic organization is the cooperative, because cooperatives are not "capitalistic" as they are associations of people rather than of capital. Decision making in cooperatives is on a one-man-one-vote basis, not on the strength of equity ownership, and for this reason was regarded much more democratic. The belief in cooperatives as one of the main pillars for the national economy is enshrined in the 1945 Constitution of the Republic which is still upheld today. The government always dispenses major assistance and large subsidies for the growth of cooperatives, especially in rural areas. There is even a minister for cooperatives. Village cooperatives supporting the rice cultivation intensification scheme have become very important, but critics will say that they have become extensions of the government controlled extension service, with too much intervention from the top and too little free and autonomous development.

The Indonesian independence movement, however, never espoused a policy of complete nationalization or socialization. It' favored a "mixed economy" but with strong government control and planning. Therefore the regime had a preference for the public sector, where the companies function as "agents of development" and are the "instruments of the state" in the execution of developmental policies.

Private enterprise had its place in such a system because, first of all, in its social philosophy the independence movement did not want to have a complete break with the past (although it professed aiming to liquidate "the vestiges of colonialism and the capitalism"), secondly, because it realized that there will be a deficiency of investment capital if the modern private sector is to be excluded. The emphasis in the doctrine is not so much on "ownership of the means of production" as well as on "planning".

4. The First Period of Independence

Because of these ideological inclinations the development of the private sector economy did not progress well in the first period of independence from 1945 through 1966, that is, the period of President Sukarno. This era was marked by acts of nationalization or control of foreign, mostly Dutch, enterprises by the government. These actions were seen as a necessary part of the decolonization process. Since the Indonesian elite had no vested interest in the modern private enterprise sector, this policy of nationalization did not encounter resistance. As a matter of fact, from the occupation period the interest of this elite had been linked with the state run enterprises.

It is relevant and convenient to distinguish the important elements of the private sector. They are: the Chinese enterprises, the foreign enterprises and those owned by indigenous Indonesians. Why are such distinctions along racial lines significant or important? Because in a post-colonial country like Indonesia, "political economy" (i.e., institutional economics related to the power-structure) is still very important.

The newly independent country has not finished its social transformation and its "nation building" process. The socio-economic "status quo" was not a stable situation and there was constant political pressure from the part of the holders of the political power to change it. The objective is to build a "national economy" as an anti-thesis of the status quo during the colonial period. The latter is portrayed as a situation where Western enterprises are on top of the political pyramid, followed by the Chinese (or then called "alien orientals") and where the (indigenous) Indonesians were only occupying the bottom position. The socio-political objective is now to elevate the weak majority at the bottom using state power as protector and facilitator. Before a genuine indigenous modern private sector can develop, the public sector becomes the spearhead and bulwark of the emancipation process. Differences in citizenship, culture and religion accentuate the division between the categories. Indonesian policy vis-a-vis the modern sector is always strongly "nationalistic" and reform oriented. Economic nationalism has always been a strong force since independence, even also during the present "New Order" which prides itself of being pragmatic.

A significant difference should be noted between the Indonesian and Indian history. In India the (strong) domestic private sector had given firm political support to the Congress in the years of freedom movement. In Indonesia such support came only from the indigenous small enterprise sector, mostly organized on religious (i.e., Islam) basis, while the Chinese business class stayed largely neutral. This has influenced political attitudes in the post independence period.

During the first period of independence the private sector did not develop much and again political development was the root cause. The Indonesians proclaimed their independence in 1945, immediately after the end of World War II. The period until the end of 1949, however, was occupied by a revolutionary struggle with the Dutch who tried to re-establish their power; during this time the country was even divided in a "republican" territory and an "occupied" part. Hence no peaceful development could take place.

The early fifties was a short period of relative peace, of reconstruction and an effort of accommodation to the former colonial master. The Korean War boom brought even a short spell of prosperity. Since 1957 this peaceful period also came to an end as a political dispute with the Dutch over the status of West Irian culminated in a virtual nationalization of all Dutch enterprises.

The late fifties and the early sixties were relatively quiet and the government tried to develop the economy according to economic development plans. In the meantime, the development of domestic politics, heavily influenced by a western European style multiparty system, did not produce political and administrative stability. Attitudes towards foreign investments and foreign enterprise were not favorable, if not suspect, and the same towards Chinese enterprise were ambivalent at best. On the other hand state enterprises barely managed to keep their heads above water while the indigenous private enterprises were just emerging as a result of hothouse protection.

A landmark policy of the early fifties was the "Benteng (fortress) policy" of Minister of Trade Isqak, which distributed import licenses to some five thousand indigenous Indonesian traders and importers, many of them were newborn "briefcase" entrepreneurs. Many of these new entrepreneurs, because they had no capital and experience, sold off their licenses to the old Chinese traders. Only a handful of these Benteng importers survive today, but such policies of trying to pressure cook indigenous Indonesian entrepreneurial development is typical of the efforts of "economic nationalism", and even today such governmental inclinations still exist. Political favoritism of the ruling parties with respect to the selection of businessmen to be granted favors also affected the further development of this indigenous business class. Every time another political party came to power, different people were favored. Hence there were businessmen related to the nationalist party, the socialist party, the moslem parties, etc., which during the forty years of independence did not show strong survival strength.

The period until 1966 (when the so-called New Order government took over) was characterized by political instability and low economic growth, without new foreign direct investments, without much foreign aid, with high inflation and stagnant exports.

However, there were some exceptions worth recording. The foreign oil companies, such as Caltex, Stanvac, and Royal Dutch Shell started exploration and production again after the old Dutch style Concession Agreements were replaced by Contracts of Work where the state is recognized as sovereign owner of the subsoil resources. In the new arrangement the foreign oil companies became "contractors" for the government but bearing all risk and bringing in the required capital.

Although not called aid, the Japanese war reparation started. The treaty was signed in January 1958 and there were payments amounting to US$ 233 million in total, continuing for 12 years. Furthermore, there were production sharing cooperations, not direct investments, with Japanese companies. For example, North Sumatra Petroleum Cooperation (NOSODECO), signed in April 1960 with a credit line of US$ 52.3 million; Sulawesi Nickel, signed in November 1962 with a credit line of US$ 1.4 million; Japan-Indonesia Sugar Refining, signed in August 1964, with a credit line of US$ 12.5 million.

Some large publicly owned industrial plants were constructed with US EXIM-Bank credit and PL480 collateral loans, such as the urea fertilizer plant in Palembang (completed in 1963), the cement plant in Gresik (first stage completed in 1955, second stage in 1960).

Around 1963 there was again a political confrontation with the West, i.e., the British and the Americans, and a pronounced political overture to the left. The economy suffered some more under such circumstances. Not much positives could be reported as to the development of the private sector in such period. The foreign private sector was virtually nationalized, i.e., the operation taken over by the government but leaving ownership undecided. The Chinese private sector did reasonably well in surviving but could neither not grow nor flourish. The economy was very much state controlled; price control and foreign exchange controls were extensive. Only wheeler-dealers, smugglers and those who could obtain import licenses made good money.

The indigenous private sector could also not develop in an orderly way. On the other hand, under such circumstances of economic deprivation and scarcity the "informal sector" survived and in a way even flourished. Many government employees and their wives tried to make ends meet with buying and selling used articles in a gray market. What is important of this phenomenon is that it gave to those normally non-trading classes an experience, and after a while a taste, in commerce. During World War occupation time and these difficult times of early independence a *number of upper class* morals and habits of not dirtying their hands with trade broke down and paved the way for the emergence of a commercially inclined attitude among the elites.

A frequent phenomenon in newly dependent developing country is that the ruling elites have not come from a commercial or industrial class; matter of fact often they are not even friendly to the latter. When such elites make policies they will earnestly try to further the national interest, but such policies may not give the right incentives for the business class to perform. Such policies often have "socialist" orientations (e.g., more oriented towards the interest of agriculture workers and industrial laborers rather than employers), but if the most basic important part of the economy is still basically private enterprises, including the farmers, then such policies will not readily produce steady economic growth. Perhaps the government, in a mixed economy, should also come (at least partly) from the business class, or should at least have ties with the business class to be able to understand their problems.

5. The New Order Period

It is only during the present era of the so-called New Order government of President Suharto that much of the stigma of private enterprise is being removed. Nevertheless, one must recognize that old teachings and prejudices die hard.

The prevailing political stance for the past twenty years had been "pragmatism", which is a policy blend of still respecting old ideological commitments embedded in the 1945 Constitution and trying to accommodate these with the requirements of the growth of the economy under present circumstances. The 1945 Constitution in article 33, for instance, contained the mandate that "branches of production important for the State and of dominating interest to the livelihood of the masses of people have to be controlled by the State". Such were the convictions of the founding fathers of the republic, many of them were steeped in the socialist traditions of western Europe before World War II.

On the other hand, the new government that replaced the old regime in 1966 recognized that the country was heavily capital deficient and that it also needed new technologies to develop the economy. The new government overcame the old prejudice against foreign investments and enacted a law to attract and to give guarantees to incoming foreign investments. This law (1967) was soon followed by another law extending the same incentives to domestic investments, meaning rupiah based investments by domestic private enterprise. Because many of the strong domestic private enterprises were Chinese controlled, it meant that the new government wanted to extend its pragmatic approach to this part of the business community, the growth of which had never been free from domestic socio-political controversy.

Although most Chinese are Indonesian citizens and have long been rooted in the country, nevertheless because of colonial history they were regarded as somewhat alien by the indigenous Indonesians, and often became the subject of discrimination. The prejudice was that the Chinese have their loyalties outside the country and that they are part of a wider network of overseas Chinese, such that their assets will leave the country in case there is an urgent economic or political reason.

However, the New Order government, recognizing that the domestic Chinese are part of the "national assets", deemed it opportune to utilize their capital and capabilities to develop the national economy rather than to leave them apart. *If foreign investments are being encouraged,* which will produce a strong foreign presence in the national economy, it does not make good sense to hamstring the potential strength of one important segment of the domestic private sector. Domestic Chinese, because of their roots in the country, will at least be inclined to stay, in comparison to the foreign investors who, according the law, only hold temporary rights.

A prudent government, however, will still respect the strong historic predilections and steer *a balanced course. That is why the new government did not abandon the old preference for a* strong public sector. Such sector can be appreciated as being part of the "indigenous or national" sector, especially when there is no strong indigenous private sector as yet. Hence, fueled by the revenues from the oil boom this public sector also grew much during the present regime. Apart from the traditional public utilities sector it also includes heavy industries such as steel and shipbuilding, and chemical industries such as cement, paper, fertilizers, and petroleum refining.

The modern enterprise sector in Indonesia today consists of three major elements, i.e., the public sector, the foreign sector and the domestic private sector. There are, however, partnerships and other relationships between three sectors. The current administrative definition of the foreign sector is a company registered under the foreign investment act. Foreign banks, however, are not under this act and neither are the foreign oil companies working under Production Sharing Contracts.

There are little statistical measurements for their relative strength of the three sectors, and from visual observation it is hard to tell even how the ranking order is. In banking the public sector is very dominant (75% in terms of assets), also in petrochemicals and in plantations. In downstream manufacturing industries private interests have the overhand, also in trade. Although there is a lot of interaction and interrelations between these three sectors, e.g., in joint ventures, their distinct politico-economic roles should be kept in mind. They are not equals but they are meant to complement each other.

6. Chinese Vis-a-Vis Indigenous Entrepreneurs

Within the domestic private sector a relevant distinction could be made between the so-called "strong" and "weak" economic sectors. "Strong" and "weak" are political euphemisms for identifying the Chinese and the indigenous Indonesian entrepreneurs without sensitive racial connotations. The Indonesian government is in terms of formal policy always non-racial in orientation because such is one of the taints of the independence movement, but it nevertheless has to contend with strong popular sensitivities. The indigenous Indonesian entrepreneurs are mostly in the weak category, while many of the foreign and Chinese enterprises are assumed to belong to the strong category. This number game is a subjective matter, because no good statistics exist. However, the large(r) foreign and Chinese enterprises have greater visibility, especially in big cities.

For the sake of long term social and political stability it is important that the gap between the weak and the strong economic groups be bridged and their disparities alleviated. There is a government program to assist the growth of these small and weak enterprises by giving them preferential access to government credits and government contracts. State banks are running a small business credit program with subsidized interest rates and small government contracts are reserved for that same category.

To foster linkages between the social categories of enterprises, including foreign, several policies are being promoted. Incoming foreign investments are required to associate themselves with domestic partners in joint ventures, where the local party has to have a 20% share at the start. In ten years the domestic share should be given the opportunity to grow to 51%. With the Deregulation Package of December 24, 1987, however, greater flexibility is introduced in those numbers. Minimum local equity can be as little as 5% for exporting ventures located in free trade zones, without time limit for increasing the local equity share. The time limit for divestment of foreign majority ownership is extended to 15 years with possibility of extension of another five years. Clearly, those local equity criteria are political considerations and are more guidelines rather than strict rules.

Since 1974 state banks only lend term (investment) credit to domestic companies which have an "indigenous majority", meaning that such domestic companies have to be owned by indigenous Indonesians at least for 51%, or when majority share ownership is held by non-indigenous (meaning Chinese) Indonesian citizens, the majority of director and commissioners should be indigenous Indonesians. Commissioners are members of the supervisory board.

This policy was instituted in 1974 after the large scale students' demonstrations during the visit of the Japanese Prime Minister, Mr. Tanaka, to ASEAN capitals and which shook the government. These popular feelings were probably as much directed to the government and underscored the concern of the students and other population groups of perceived rising inequities as a result of liberal and open door policies during the execution of the First Five Year Plan (REPELITA I). The requirement that foreign investors have to have an Indonesian partner from the start and that the latter equity share should rise after ten years to at least 51% also comes from the same motivational source.

Official policy and practice, *however, are not always congruent.* In practice the requirement that only so-called indigenous companies have access to investment loans from government banks is met only in nominal sense, giving rise to so-called Ali-Baba companies where indigenous Indonesian parties (i.e., the Alis) fulfill the majority requirements but in reality the original owners (i.e., the Chinese Babas) still control the operations. The state banks, cognizant of such facts, tacitly condone the arrangements because otherwise too few companies will be able to meet the minimum own capital requirements. For the government, these nominal accommodations are also sufficient for the time being, because one cannot force the development of certain desired conditions. If a start can be made of social or business integration between the different categories, that would be enough.

How did the Chinese and the indigenous Indonesian businessmen and entrepreneurs fare under the preference scheme or discrimination? Again, hard statistical facts are unavailable, but the popular perception is that both categories were doing well, that is, when the economy still went strong until 1982. Preference schemes for the so-called underprivileged are economically more affordable in good times.

From the Indonesian side the supply of entrepreneurs was also growing fast. Such was a reflection of swelling numbers of graduates from secondary and tertiary educational institutions. *Education was much improved during the last fifteen years.* If before the government was the most preferred place of first employment, that changed during the seventies. For one thing, the government could not absorb too many new employees any more, while government pay scales were never adequate. For another thing, the private sector was given more appreciation and encouragement by the government, and especially the preference schemes were attractive for young educated indigenous Indonesians to enter business. Staff salaries are also much more attractive in the private sector, especially when the times are good.

The negative side of the preference schemes, however, was that the starting young entrepreneurs did not have to work and fight hard for their survival and growth, and this experience did not steel them to face the harder times since the recession of 1983. But even under such circumstances, there is still considerable government projects and procurement, including those of state owned companies, so that there is still a comfortable niche for some of them. In general, however, business conditions have become much more competitive since the recession of 1983 and fat profit margins have become largely a thing of the past. Hence growth, if not survival, has become harder for these up and coming entrepreneurs.

The Chinese entrepreneurs have been able to hold their position and most probably even strengthen, because of superior business acumen, much longer experience and the effect of their *extensive national and international network. They also have learned* to accommodate and cooperate with indigenous entrepreneurs when government business is at stake. The latter need them for their capital and experience and so a symbiotic relationship is shaping up, especially among the younger generation as they have shared the same national educational experience. Many of the old Chinese business people were educated in Chinese schools or were first generation migrants. Since the last twenty years there are only national schools in Indonesia. Young returning graduates from overseas universities, from both races, have a greater affinity to work together since they "talk the same language".

7. The Foreign Business Sector

After a virtual absence between 1957 and 1967 foreign enterprise came back as part of the policy of the New Order government. They came under the Contract of Work and Production Sharing contracts in the oil industry and under the foreign investment law in industry and other sectors.

The oil industry has always followed its own regime. On the one hand effective tax rates are much higher than in other sectors, but on the other hand they have (or had) more freedom and privileges. During the time of President Sukarno they were operating under a "let alone" arrangement, especially with respect to foreign exchange transactions and other operational requirements. Such liberties were a recognition of the industry's importance for the national economy. The rest of the economy was virtually nationalized or socialized.

During the past twenty years of the New Order regime, these foreign oil companies in oil and gas virtually dominated national production, although they all had to respect Pertamina, the national oil company, as their landlord. The Production Sharing (PS) companies are nominally subcontractors of Pertamina, but operate under sufficient degree of freedom, fifteen years ago even much more so than now. Under the terms of the Production Sharing contract, "the management of the operation is in the hands of Pertamina". The interpretation, however, in the past was liberal, and these sub-contractors had only to submit their annual budgets and work programs to Pertamina for approval. For the rest they were free. During the last five years or so, there have been increasing pressure for greater local content and more use of local services, but the foreign management still have a large degree of autonomy (although their complaints about time consuming Indonesian bureaucracy continued). The government's present interest is to gradually stimulate the growth of local sources of inputs and the growth of local companies serving the oil industries.

The presence of foreign (investment) enterprises in industry, mining, forestry, banking, and other sectors is significant. If the leverage of foreign companies in companies registered as domestic investments is also taken into account than the overall influence of international business in Indonesia is very important. Many domestic companies are supported by their international partners for their overall capital requirements, for their technology, technical manpower, marketing and sales back-up, etc. The automotive, heavy equipment, electronics and electrical appliances industries, for instance, can be said to be dominated by the Japanese industry. Indonesia is for Japan a very important target country for their overseas investments, number two only after the United States, with some US$ 7 billion of investments at stake. The Americans, on the other hand, have some US$ 4 billion invested in Indonesia, mostly in oil and gas, where they are dominant. Apart from Europeans, Canadians and Australians, there is also an emerging entry of Asian foreign investments, such as from South Korea, Hong kong, Singapore, Taiwan and India. Often, as with Taiwan, Hong kong and Singapore, their investments are indirect through local Chinese partners.

These foreign enterprises, as they operate under a foreign investment law and are involved in direct investments, are subjected to several restrictions. Foreign investment companies, and the foreign banks, do not enjoy national treatment. For instance, they are not permitted to establish their own marketing network as subsidiaries, but have to operate through local distributors. They cannot borrow Rupiah funds from state banks. Foreign banks cannot operate outside Jakarta. This discrimination was (at the inception of foreign investment policy in 1967) meant to protect domestic companies which are perceived to be weaker. When domestic savings were scarce incoming foreign companies are expected to bring in capital from abroad rather than borrow local funds. There is also a law barring foreigners from domestic retail trade that historically was directed at non-national Chinese operating in the country side. National treatment, however, is recently (i.e., part of the December deregulation package) given to joint ventures with 51% Indonesian ownership. It took twenty years to break this rule. Moreover, this national treatment is an incentive for joint ventures to divest, and is explained by the government as an incentive to the domestic parties in the joint ventures.

The underlying idea is that foreign capital and know-how should be complementary and assist the growth of national enterprises and not compete with the latter. As a matter of fact, the popular philosophy is that the growth of national enterprise is to be protected from outside competition. Indonesia, as a latecomer in industrialization and having a large -- albeit often still potential -- domestic market, has been very protectionistic in outlook, and regards its domestic market as its major asset for industrialization. Effective protection against imports, both in terms of tariffs and non-tariff barriers, is often high. Foreign enterprise working within the country is regarded a necessary element to complement and assist national capabilities, but they also should not compete under the same terms with the national enterprises. In reality, however, these restrictions are not severe. They involve, as said before, a restriction in distribution, no access to government banks for (often subsidized) investment credits, expansion only if national enterprises cannot fill the market, while their license is only limited to 30 years (although extendible). On the other hand, they have a legal guarantee for repatriation of profits and capital, and they are by law protected against nationalization.

Foreign enterprises once operating in the country enjoy also the protection regime. Matter of fact, that was the great incentive for the entry of so many import substitution industries. One can say that these foreign enterprises, once inside the country, share the same protectionistic inclinations.

Most of these foreign investment industries working mainly for the domestic market similarly contribute to a high cost economy. The scale of the plants were geared towards the size of the domestic market. Often the technology is not the most advanced or the most efficient for local conditions. Capital cost of the equipment and auxiliary facilities is often significantly higher per unit of capacity than in their home country, while the cost of raw materials and technology is often subject to transfer pricing. The high protection and the still unfulfilled domestic market made all stuffing of the cost possible.

A symbiotic relationship grew between the international companies and their domestic partners who were mostly Chinese during most of the last twenty years. Because foreign companies could not engage in distribution, and because this network has been mostly in Chinese hands, the Chinese partners in (mostly Japanese) joint venture companies received handsome distribution profits, which became their major vehicle for capital accumulation and for strengthening their position in the following stages. Because of the ravages of the national economy at the end of the Sukarno period, even the Chinese probably had little capital left. Compare the country's exports twenty years ago which hardly reached a quarter of a billion dollar, with over twenty billion dollars at the height of the oil boom. For developing countries, foreign trade (the best reflection of the modern sector) has always been the major source of capital accumulation. It should be mentioned, however, that for an OPEC country government contracts and procurements became very important sources for profit and capital formation also.

Although Chinese companies became the most numerous partners in Japanese direct investments, it should be noted also that government (e.g., in the Asahan aluminum smelter), public enterprises (e.g., Pertamina in a number of oil industry related ventures) and some indigenous companies (e.g., in automotive) became important partners.

8. Competition and the Role of Government

It is hard to pronounce an unambiguous judgment whether or not effective competition prevails in the Indonesian economy. The best answer is yes and no, depending on time and place.

Indonesia is a typical developing country trying to industrialize in a hurry. The prevailing beliefs or doctrines are not against monopoly, unless this is "to the detriment of the interest of the people", as stated in the State Guidelines, but who is to judge about the latter? There is no legislation yet to work it out. The role of the government in guiding and promoting economic development, directly through policies and indirectly through the public sector, is great and that is another part of the reigning doctrine. In a developing country with still limited markets, economies of scale will tend to produce monopolies or oligopolies which in turn entice the government to step in to regulate the market. Like in India, large state enterprises are often occupying the "commanding heights" of the economy, because such is part of the doctrine of planning.

Protection against competition from imports is high. During the first period of the New Order government, that was done mostly by tariffs. Import quotas were non-existent and complete import bans exceptional.

Over time non-tariff measures crept in. The government felt restricted by GATT agreements to impose too high import duties, except for luxurious consumption goods. When industries move from downstream to midstream and upstream, each of them demands tariff protection. This process resulted in a cascading structure with very high nominal tariff rates at the downstream end.

Too high tariffs for consumer goods, on the other end, encourage smuggling. For archipelagoes like Indonesia, situated near a freeport like Singapore, smuggling under different names are an open invitation and a favorite pastime for less scrupulous entrepreneurs. Smuggling can take the form of outright physical entry through improperly policed routes between the small islands (Singapore is but a stonethrow away from the nearest Indonesian island). "Smuggling" is also carried out in the form of passengers' goods between Singapore and Indonesian ports of entry. Then there is a favorite type of smuggling through underinvoicing and declaring the goods under low(er) rates entries, which is called statistical smuggling. In one way, such smuggling is probably a blessing in disguise because it provides the consuming public a protection against too high tariffs and prices. On the other hand, statistical smuggling for intermediate goods, parts, components, etc., produces unfair competition for manufacturing companies that could not resort to such means. The foreign investment companies are at a handicap because they could not afford such practices.

Because of this competition from smuggling, import control through complete bans became an accepted policy. For quite some time the importation of completely build-up passenger cars, television sets and radios has been prohibited, and the list has a tendency to expand and includes now fruits, perfumeries, spirits, etc. The argument in favor of complete ban and import quotas is that under the latter scheme smuggled goods, once they hit the street, they cannot be acted upon because of the difficulty of providing the source. If an article is banned, then it can be confiscated if it is for sale. Such is not a foolproof system, because banned goods, mainly stemming from international passengers from ships and airplanes, still can be seen in stalls in Jakarta. But at least such is only a small phenomenon.

The practice of import quotas is not widely used because of the difficulty of defining the quantities and the importers. When quotas are practiced the government tends to control the channel by assigning the importation to a state owned trading company which in turn could be further assigned to work with a private consortium. This system is called approved trading system. To the extent it is applied to control the importation of industrial raw materials, such as steel, raw materials for plastics, tin plates, it is not popular among the business community because it raises costs downstream, erodes export potential, and the windfall profit benefits only the consortium while the government is foregoing revenues from import duties. The assignment of a particular consortium is also an inequitable affair for the majority.

The reason for the government's intervention is to support the establishment of a mid- or upstream industry. The company, or companies, which are given the privilege to take part in the consortium, can use the profits for capitalization of the venture. The argument of the government is that there is no better way to establish the needed industry because under ordinary competitive conditions no investor would want to come in, also the capital requirements are too high for the degree of risk. This protection solves the problem of competition and capitalization. Does such example constitute an example of socialization of a private enterprise which becomes the chosen instrument of the state for an execution of a project? It looks like that. But why not choose a state owned company? And why not choose the budgetary way to subsidize the establishment of such an industry? Such is one of the existing policy debates.

In one way it shows the ambivalent attitude of the government vis-a-vis state and private enterprise. Sometimes public enterprises are preferred, at other times the choice is for a greater role of private enterprise. Public enterprises are seen as the backbone of the economy, but the private sector is seen as much more dynamic and entrepreneurial. It shows the eclectic inclinations of the ruling regime.

There is one kind of competition from imports which have not found satisfactory solution. Periodically, when world demand is weak, international suppliers try to unload their supplies at very competitive prices, perhaps below full costs and under their own domestic prices. Indonesia still has no anti-dumping law. There is some practice to collect import duties on "fair prices", more to safeguard government revenues. Because of such occasional "dumping" practices, domestic industry feels more secure with high import duties, but such creates the cascading effect of duties if industry moves backward. Another demand is for quantitative restrictions. Ultimately, existing industries got used to protection and when felt necessary press the ministry of industries for continuation.

The policy of *industrialization is still improperly integrated* with trade policy. That is because the two camps, one favoring high protection and the other favoring more competition, are equally strong. Since 1983, however, the country realizes that domestic industry has to assume an export capability, and with all the sources of high costs that objective become difficult. Hence there is a growing recognition for a more rational industrialization policy not based on high and permanent protection, but the how, how much (protection) and when (to phase out) still have to be worked over time.

Competition among domestic enterprises is also often controlled by the government. When the New Order government came in it abolished the extensive price controls of the old regime because it wanted to rely on the price mechanism for the allocation of resources. Such is still the ruling policy, but old habits die hard. One of the economic doctrines of the New Order is that it is against "free fight competition", because the latter is too much identified with "capitalism", which even the New Order cannot embrace. Hence the new doctrine is price mechanism for efficient allocation of resources without the excesses of competition. Excessive competition is also regarded as wasteful as it is the result of overinvestment and underutilization of capacity. Therefore, the idea of capacity regulation becomes popular, and industrial licensing becomes the natural outcome.

In reality it is difficult for the government to determine the optimal capacity in an industry because of poor statistics and technical information. There is always a cat and mouse game within the industry about this licensing of capacities. The existing industries like the protection and register often more capacity than effective just to persuade the government to early close the industry for new entry. On the other hand, other companies try to persuade the government to allow expansion or new entry under a variety of excuses. Some companies even undertake expansions without government permission and foregoing the usual investment incentives (exemption of import duties for capital goods, investment allowance, etc.). One can often observe that competitive spirit within private industry is often lively and that the inclination is more for expansion rather than contraction. This is one answer to the question posed before, i.e., whether or not competition prevails in Indonesia? The competitive spirit is great but everybody tries to jockey for an advantageous position, and in an regulated environment the game is as much played with the government.

Indonesia also has no legislation against monopoly, oligopoly and other restraints of trade. The attitude with respect to market power is ambiguous and ambivalent. On one hand, it recognizes that size could convey greater efficiency, on the other hand, one of the political doctrines condemns monopoly if it hurts the interest of the people. This latter doctrine has not been spelled out in implementing laws or regulation. With respect to government enterprise monopoly, such as for public utilities and Pertamina, the national oil company which has a monopoly over the sales of fuels domestically, the public is only recently becoming critical because of the drive against the high-cost- economy.

Although in general there is no government control over prices, especially in the private sector, nevertheless the government price regulating practice is commonly felt. First of all with regard to the major state enterprises, especially those of a public utility nature. Sugar is mostly produced by state owned enterprises and prices are administratively set. The prices for fertilizers produced by public enterprises or otherwise imported by semi-governmental bodies are also controlled. So are the sales of domestic fuels by Pertamina. The cement industry, regarded as a "vital industry", is also often the subject of price control. This industry is a virtual oligopoly although not any more dominated by public enterprise.

Because inflationary conditions in Indonesia are endemic, the public often demands price control by the government. The effectiveness of price control differs from situation to situation. Whenever there is an acute shortage, then a black market develops at retail end which the government cannot control. Control is only practiced at the point of factory. Imports could provide relief, but are not always free and the tariff protection could be too high. Consumer goods are not subjected to price control. There is price stabilization for rice but through market operations done by a governmental agency.

Because of the great influence of the government in economic life, i.e., the many regulations and the frequent policy changes, government relations become very important in the life of private companies, especially for the larger ones. In this respect, the foreign, the Chinese and the Indonesian companies, all have their own handicaps and advantages. Ministers and high government officials normally do not come from the commercial class. Economic ministers are not political party people (although they are members of "Golkar", the political organization supporting the government) but are so-called technocrats, which means that they are often professional economists but not businessmen. They are good at formulating macro-economic policies, even sectorial perhaps, but usually have no empathy for the problems of companies. Moreover, the general social and economic ideologies favor small business, the economically weak sector (meaning small indigenous ventures), cooperatives, rather than modern or big business.

The foreign and Chinese enterprises normally have no good access to government circles, because they do not belong to the same "political class". However, in practice they have their own advantages. The entry of foreign investment companies has been courted by the government and those companies are often large companies with professional managers. They can communicate with the sophisticated technocrats more at par, as compared with directors of indigenous Indonesian companies. The Chinese managers, again especially the professionally or better educated among them and those representing large companies, have often also effective communication power. The Indonesians convey greater political clout, but the others can communicate more effectively and professionally. Nowadays, however, the ranks of better educated and professional Indonesian managers and directors have swollen. For government relations large companies now often employs as directors retired high government officials to improve access to government circles.

9. The Chamber of Commerce

Indonesia has an active Chamber of Commerce and Industry, in Indonesian called KADIN Indonesia. It is a relatively young institution still groping for effective performance and recognition. Membership is voluntary and that is one of the weaknesses of the organization since it has no financial strength. It aspires, perhaps appropriate in the current Indonesian social and political setting, a legal position under public law and that under such provision all registered companies above a certain criterion should become member and pay dues. Such a system prevails in a number of West European countries as a result of Napoleonic codes (e.g., in France, Netherlands, and West Germany). A non-governmental organization encompassing all of the enterprise sector, including state enterprises and commercially oriented cooperatives, and recognized by the government as the only "partner in economic development" for this sector of the society, will have teeth and financial strength for the execution of its functions.

KADIN Indonesia has long lobbied for a law to give its existence a strong base. This law came in early 1987. The new Chamber of Commerce and Industry covers the three major sectors of the economy (i.e., so mentioned in the Constitution), i.e., the private enterprise, the state enterprise and the cooperative sector. Hence the new Chamber of Commerce and Industry does not represent the private sector alone, but the whole enterprise sector. This was not the original idea of Kadin Indonesia but a decision by the governmental drafters of the law. On the other hand, it does not contain compulsory membership. Apparently, the drafters of the law could not see such necessity as yet, although the door towards obligatory registration of companies with the Chamber of Commerce and Industry is not closed, since the government can (later) decide to transfer certain public duties and functions to the Chamber. For instance, periodic re-registration of companies can be entrusted to the Chamber. In the law the government has great powers over the Chamber.

The Indonesian Chamber of Commerce and Industry reflects the present day social, economic and political environment. Its membership does not constitute a homogeneous constituency. The strong elements are the state enterprises, the foreign (investment) enterprises, the large (often Chinese) domestic business houses and a number of upcoming largely medium scale concerns owned by indigenous Indonesians. On the other hand, the small enterprises and the cooperatives comprise the overwhelming majority. What and who should KADIN represent? Theoretically all of them, but where should the emphasis be and what if sectorial interests are not convergent? In industrial countries, the Chambers of Commerce tend to represent more local and small- to medium-scale companies, while the large corporations have their own association, such as Keidanren in Japan. The latter arrangement, however, is not tolerated in Indonesia: big boys should not overtly gang up. In its policy dialogue with the government Kadin Indonesia tries to represent overall national interests, but especially tries to defend the interests of the business sector with respect to government's macro economic and sectorial policies. However, it is obligated to pay particular attention to the interests of the upcoming indigenous (small) business class, because this sector, strong in the provincial and district chambers, holds the majority of voting rights in the election of the governing board of the national chamber.

KADIN consists of the national organization in Jakarta, called KADIN Indonesia, 27 provincial KADINs, and many more district KADINs. There are also over 200 industrial, service and trade associations, covering sectorial interests, and a number of special interest organizations, such as representing young entrepreneurs, small business, women entrepreneurs, etc., which all fall under the aegis of KADIN. In Jakarta there are also a number of bilateral Business Councils and special Chambers, such as the American Chamber, the Indonesia-Netherlands Association, the Indonesia-Canada Business Council, etc., also nominally falling under the umbrella of KADIN. Some of them, such as the bilateral Councils are an integral part of the KADIN Indonesia operation while others, such as the American Chamber, are very autonomous.

In the provinces and districts the majority of Kadin's members consists of indigenous local businessmen, a great number of them engaged in construction of government projects or otherwise suppliers to government procurement. The local Chinese merchants do not often participate in the (local) chamber, and foreign investment plants located in the provinces are represented more in the national KADIN. Hence, in practice the bulk of Kadin's membership and those having voting rights consists of small, or otherwise upcoming, indigenous enterprises. In line with the national preoccupation of "equity first", KADIN's representation is mainly concerned with the interests of this sub-sector of the business community. In the provinces and districts such representation is also very relevant. In the capital city, however, interacting with the central government and mainly concerned with policy dialoging vis-a-vis the central government about macro-economic and broad sectorial policies, the interest of the larger and stronger business sectors are better taken into account. The industrial, service and trade associations also can interface directly with the government (i.e., ministers and their staff) to defend their particular interests.

The Chamber of Commerce and Industry is under the circumstances an effective instrument for the upcoming private and business sector to interface with the government and to promote its long run developmental interest. The private sector historically does not have the political clout, and its existence is at times only grudgingly accepted, if not tolerated. The public sector enjoys higher esteem, as so does the cooperative sector out of ideological reasons. But in the New Order era the role of the private sector is given greater recognition. Recently this trend became accentuated in all of ASEAN as was reflected in the resolutions of the third ASEAN Summit in Manila in December 1987. On the other hand, as long as the quality of leadership in the private sector, especially the indigenous part, does not command great respect as yet, it is harder to defend its interest against a politically and intellectually dominating government. Effective policy dialogue requires "parity", and it is the task of the Chamber to develop this parity of interface.

A chamber of commerce has the traditional functions of, first, representing the interests of the private sector vis-a-vis the government. In Indonesia this is probably the most important function, because of the dominant role of the government in the economy, and because the government is still the most important buyer of goods and services. In this procurement the government also applies a preference scheme for the small business sector. This share, however, needs constant watching for fairness and open access. An allocation system based on administrative decisions will always have a tendency of becoming rigged by collusions and favored groups. In a developing country where the government position is very powerful, any influence that can function as a countervailing power has a very useful role.

The second function of a chamber of commerce is the collection and dissemination of information useful for the conduct of business. A third is trade promotion activities, e.g., the organization of trade delegation, trade fairs, seminars, etc. A fourth function is training and education. Chambers in Europe, for instance, have a very important role in the latter and are assigned certain public functions, such as holding examinations and issuance of certificates, sometimes even the management of harbors and airports.

All these commercial functions require funding and personnel of quality which in developing countries are not easy to get. In developing countries dues from voluntary membership never can be a steady or sufficient source of income. If regular dues cannot meet expenses a chamber has to operate with donations from large companies which probably see a political advantage to support the chamber. That is why the Indonesian chamber would very much prefer a semi-public status, with compulsory membership endorsed by the law. In Indonesia today such a status for the chamber is deemed more practical than a completely independent non-governmental association.

10. The Outlook for the Future

Will the private sector grow in importance in Indonesia, where, for the reasons of ideology, the public sector is more respectable, and where the cooperative sector is mentioned very prominently in the Constitution?

The answer is affirmative, as long as the present political regime continues. The main reason probably is that the private sector is much more dynamic and resourceful than the public sector and the cooperatives. The public sector will grow as long as the financing capabilities of the government is great, such as in the period of the oil booms. In a time of financial scarcity probably the private sector will grow faster. From 1982 through the early nineties, there will probably be no more oil booms and public development funds will be sufficient only for the construction of infrastructures.

On the other hand, if only the foreign and Chinese enterprises will grow fast, over time such will produce a political backlash and efforts to restrict their further growth. Hence, social engineering requires a more balanced growth of the various sub-categories of the private sector, and a symbiotic relationship between the three major sectors of the economy, i.e., the public, the private and the cooperative sector.

For a faster growth of the indigenous private sector two facilitating factors are required, i.e., the provision of capital and a greater supply of entrepreneurial talents as well as managerial personnel. Moreover, time is still required for a maturing process.

Capital could come from surpluses out of operations as well as from banks. The existing stock market is not yet an effective recourse. This market is very limited as yet because of strict rules for going public whereas the government did not want to allow speculation to take place. The stock market is seen more as a distributional means to allow small savers among the general public to buy shares, more for earnings of dividends rather than for capital gains. That is why at the moment only 24 "blue chips" foreign investment enterprises and a smaller number of large domestic companies have been allowed, actually urged, to "go public" to about 20% of their stocks. Before the recession of 1983 the favored policy of the government was a dividend policy that provides a return on investments (based on "offering price" of the public shares) a little bit better than the interest on savings deposits in state banks, i.e., 12% per annum. That was easy enough for most of these import substitution industries in prosperous times, but since 1983 such dividend payments became more difficult.

The December 1987 deregulation package contains provisions to put new life into the existing Stock Exchange. Conditions and procedures for a company to go public are simplified, foreign parties can own Indonesian shares, and bearers' shares are introduced. A new "Over the Counter" window will be established with less stringent requirements for a company to go public. Companies could also issue bonds. Market making functions will be introduced among traders and specialists. In the past very little transactions took place at the quoted share prices.

The growth of domestic enterprises, especially belonging to the group of indigenous Indonesians, has been dependent on government banks. The government state banks, since 1974, operate under the guideline to lend long-term investment credits only to "pribumi" (meaning *indigenous) enterprises, where Chinese can take part* but only in a minority position. Interest rates at government banks have always been lower than with private banks because the average cost of money is lower for the former.

Government- or large state-enterprise (such as Pertamina) are good sources of business, and that is why Indonesian indigenous business cavorts around the government. Capital formation through government related means is a favored growth strategy for this sector.

The supply of entrepreneurial and managerial talents is improving over time as a result of enlarged educational opportunities domestically as well as abroad. In former times the government was the major, if not the sole, employer of graduates of universities and technical schools as far as they came from indigenous Indonesian families, but for a number of years such is not the case any more. Job opportunities and careers in the private sector are as much preferred, even more so in boom times.

In early 1986 there was a popular public debate concerning the desirability of "privatization" of public enterprise. The roots of this debate lied in the unfavorable situation of the government budget, i.e., a forty per cent drop in the capital budget, because of diminishing oil revenues. Because this decline was seen as a trend, the hopes for continued economic growth was put on the shoulders of the private sector.

The government has also proclaimed an efficiency drive, realizing that productivity, rather than large amounts of investments, must now produce economic growth. Against this background the performance and the growth potentials of the public sector enterprises were subjected to evaluation and criticism, and the inevitable question is being asked: Could privatization of large non-vital public enterprises put new blood into the system?

There are no obvious and easy answers. Which state enterprises should be privatized, to what degree, by what procedures, to whom should the new ownership be offered, etc.? The interesting features is that there seems to be an emerging disposition by the government to entertain the *idea and to study practical possibilities. Interestingly, this public debate,* initiated by the certain key economic ministers, petered out and not much more was heard in 1987. In large developing countries with a strong and entrenched public enterprise sector, it is not easy to privatize this sector. A more popular intermediate objective is to make public enterprises more efficient and profitable by improving the management and perhaps much more important, by giving them greater operational autonomy. Only if the latter fails, because of systemic difficulties (e.g., what agency or agencies will represent the state as shareholders, and how will they behave as controlling agencies?), partial or complete privatization will become recourse of last resort.

What will the future of the foreign (investment) companies be? Will they be able to normally continue and expand, or will their growth be curtailed and their existence finally phased out?

It is difficult to draw a certain scenario. Their existence will be subjected to conflicting influences. The ideological influence will limit their future. Foreign direct investment is seen as "supplementary" to the national capabilities, in terms of capital, technologies, managerial know-how and other requirements of industry. If such inputs have been successfully transferred to the host country, then the raison d'etre for foreign direct investment will cease, and national companies will continue their role. That is why the license for foreign direct investments is granted (only) for 30 years, though this is extendible. There is presently no cases as yet where this time period is up, because the first licenses were granted in 1967.

In practice, however, it will depend on the mood and practical requirements of the time, to what extend the interpretation of the contributions of foreign investments, i.e., capital, technology, know-how, etc., are still regarded as critical for the further development of the economy. A developing country will often be deficient in industrial research and development and a number of direct foreign investments (e.g., in automotive and electronics) will always apply recent technological developments of a proprietary nature, making it difficult for a developing host country to keep up. The history of the Indian automotive industry is such an example.

If the pragmatic approach to problems will still prevail in the future, then the presence of foreign direct investments will likely continue beyond the end of the century. On the other hand, the forms and relationships will see evolution. At the moment, for instance, most foreign direct investment enterprises are majority controlled and management is still in expatriate hands. There will be a process of gradual substitution by Indonesian personnel, ownership and control. Non-equity relationships, e.g., technical contracts, licensing, management arrangements, etc., will also have a greater presence. Again, motivating this will be the force of economic nationalism.

PART II
THE PUBLIC SECTOR (AN OUTLINE)

The discussion on the role of the public sector in the Indonesian economy can not be separated from that on three other main topics: (1) the development of ideas with regard to the problem of managing and developing the economy in the long period following the War of Independence, 1945-1950 to the present; (2) political changes, their impact on the political system in general, and, in turn, on the economic system; and (3) the change in the balance between the economic groupings of pribumi, non-pribumi (Chinese) and foreign capital, and the state sector. The post-independence period in Indonesia shows that the discussion on the role of the public sector in the economy has always been tied to the discussion about the search for the ideal balance between the private, state, and cooperative sector, as stipulated in various articles of the 1945 Constitution. All the State Basic Policy Guidelines (GBHN) of the "Old Order" regime of 1959-1965 and the "New Order" since 1966, therefore, upheld a political commitment to the 1945 Constitution to maintain the existence of the three sectors in the economic life of the nation. Consequently, the only difference emerging in the various political periods of Indonesia is that created by the difference in interpretation of Article 33 of the 1945 Constitution, specifically with regard to the issue of which sector should be entrusted to hold the "leading and commanding role" in the economic life of the nation. The issue usually becomes the focal point in the discussion on the institutional requirement of the planned development effort of each respective regime. The "Old Order" regime, with its objective of creating a socialistic society, decided that the state sector should be given the "leading and commanding" role. The New Order, on the other hand, vowed to end etatism, reverted to re-establishing the importance of the private sector, including foreign capital. But even under the New Order, once the resources situation was improved due to the oil booms of 1973 and 1978, a decision was made to create a stronger state sector to lead the national efforts in industrialization.

The experiences encountered by the three sectors in the post-independence period, in particular by the economic groupings of pribumi, non-pribumi and Foreign Capital, and the state sector, indicate the existence of two guiding policy factors used by the regimes to find the ideal balance between the sectors, and in particular between the economic groupings:

(1) The state sector is expected to play a major role in the development of the nation.
(2) In view of the weakness of the pribumi, and the fact that the cooperative sector is not developing as fast as expected, it is thus required that the state sector play a balancing role vis-a-vis the private sector, in particular the economic grouping of non-pribumi and foreign capital.

In connection with the last policy factor, both the 1945 Constitution and the State Basic Policy Guidelines have justified action to confront the re-emergence of a liberal economy in which monopolistic concentrations controlled by the private groupings rise to the detriment of the social welfare. Overall, various regimes in Indonesia have uphold both policy factors as a political commitment.

From this analysis one can understand, therefore, why in fact the Indonesian economy remains practically unchanged in structural terms, even though the economy indeed has seen the re-emergence of the private sector, including foreign capital since the First Five-Year Development Plan of 1969/70 - 1973/74. The strong political commitment to uphold the two policy factors mentioned above continues to shadow not only the activities of the private sector, but also the interrelationship between the private, state, and cooperatives sectors. The Indonesian economy, to a great extent, remains a continuation of the post-independence period of 1950-1965. The push-and-pull between the three sectors and the various economic groupings, it seems, has not led to a clear result on which one is going to emerge as the most important. Even up to the present post-oil boom period of the early 1980s, considerable debate remains on the issue of the ideal balance between the sectors and the grouping.

The debate, not surprisingly, has intensified during this period of recession. The growing intensity and complexity in the debates emerges not only as a result of the contracting economy and keener competition to keep the same share of the market as before, but also as a consequence of the raging discussions with regard to the issue of privatization of the economy, in particular of the State Corporation (BUMN). Indeed, the current hot issue in Indonesia is on what should be done to the some 215 state-owned companies, of which the majority are suspected of facing financial or managerial troubles of one kind or another. In the midst of the recession and growing budgetary and balance-of-payments difficulties, many complaints have been put forward on the heavy burden that those companies have caused both the state and the society in general. The total 215 companies refers only to those owned by the central government and not to the multitude owned by various regional governments. The number covers all kinds of state-owned companies. Some were established in the early days of the post-independence period; some were taken-over from the Dutch and other Western owners during the days of Indonesia Socialism and Guided Democracy of 1959-1965; and many more were created by the present New Order regime. There are 124 limited corporations with total state equity-participation, 31 joint ventures, 31 public utility corporations (perum), 2 budget-financed public companies (perjan), 10 state corporations, 9 "Old" limited corporations, 8 state banks, and 1 state oil company (Pertamina).

According to some estimates, the total assets of the central-government-owned companies reached Rp. 99.2 trillion in 1985, which was slightly above the nation's GDP for the same year. Their total sales reached Rp. 22.8 trillion or around 1.25 times the 1985 national budget. For the period of 1979-1983 the share of these companies reached a proportion of 12.2-12.6 per cent on the average. Further, around 50 per cent of Indonesia's corporation tax from 1980 to 1984 came from these BUMNs. It is clear from these and similar estimates that the state sector indeed occupies the "top of the pyramid" of the Indonesian economy. A comparison of ownership date for the periods of 1967-1980 and 1980-1986 reveals that the role of the state sector strengthened further at the expense of foreign capital, indicating a growing role of the state sector ironically in a time of recession, when the private sector in general undertook retrenchment. The process of "privatization" seemed to take place only in the case of domestic investment (PMDN), where an increasing number of Indonesia private investors were taking over the role of the state sector as a source of equity-participation.

It is with this general framework of analysis that the writing of the role of the public sector in the Indonesian economy is going to be undertaken. The subjects will be presented as follows:

I. The Development of Ideas on the Role of the State in Development
II. Historical Background of the Public Corporations
III. Expansion of the State Sector under the New Order
IV. Recession of the Early 1980s and the Drive for Deregulation
V. Problems and Prospects as of 1986.

CHAPTER XV
INCOME DISTRIBUTION

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INCOME DISTRIBUTION

PART 1
AN INTRODUCTORY REVIEW OF INCOME DISTRIBUTION

I. INTRODUCTION

Indonesia is now in its fourth stage of the long-term national development as represented by REPELITA IV (Five Year Development Plan No.4). Development policies in REPELITA IV continue to be based on the 'Development Trilogy', namely, equity, a sufficiently high rate of economic growth, and a sound and dynamic national stability. Equity has attained increasng emphasis in recent Replitas. The equity aspects relevant to the achievement of ideal development are expected to be realized by various policy measures through the 'Eight Paths to Equity':

(1) Equitable fulfillment of the basic necessities, especially food, clothing and housing; (1) Equitable opportunities to obtain education and health services; (3) Equitable distribution of income; (4) Equitable employment opportunities; (5) Equitable business opportunities; (6) Equitable opportunities to participate in development, especially for youth and women; (7) Equitable distribution of development throughout the nation; and (8) Equitable opportunities to obtain justice.

The purpose of this paper is to provide empirical data pertinent to the third item above, indicating current status of and changes over time in both relative and absolute income distribution mainly for the 1970's and early 1980's. Empirical evidence for both income distribution and absolute poverty for the four repelita periods are reviewed here based on past surveys and researche from various references. Primarily reports from the Central Bureau of Statistics (CBS) were used, more specifically CBS (1983), CBS (1984) and CBS (1987).

II. RELATIVE INCOME INEQUALITY -- INCOME DISTRIBUTION

Many studies of income distribution start with Kuznets' Hypothesis which Simon Kuznets derived from both time series and cross section analyses. The hypothesis states that income distribution usually gets worse before it gets better. The hypothesis projects and inverted U-shaped pattern for the changes in income distribution, since the degree of income inequality first increases and then decreases as the level of income increases. The hypothesis is based on the long-term historical data for developed countries, as well as on the cross section data from postwar years for both developed and developing countries. The hypothesis abstracts an average pattern for the changes in income distribution which does not suggest that all countries follow only one pattern during the course of development. To account for variations in inequality in a country, we need to answer many questions as below:

(1) What is the nature of the economic system? (2) Is growth oriented toward current consumption or toward investment for the future? (3) In designing policies and programs, how much weight is given to improving the economic position of the poor? (4) Are development resources spread evenly throughout the country, or are resources channeled toward particular activities and localities? (5) Does the country rely heavily on international trade, or is it a more closed economy? (6) If international trade is important, is the trade regime one of import substitution or export promotion? (See Fields (1980), p. 94).

Table 1 summarizes changes overtime in income distribution, using the Gini coefficient as the measure of relative income inequality. The Gini coefficient gives almost the same pattern as other measures such as income share of the lowest 40% of the population, as far as the CBS studies for the period 1976-1984 are concerned. Note in the table that expenditure data generate smaller Gini coefficients than income data (since the latter includes saving which is more prevalent among the rich). Note also that precise comparisons between years are possible only for the results based on the same data sources. From Table 1, we can say that expenditure distribution in Indonesia, whether it is urban or rural or nation wide, followed the inverted U-shaped pattern from the mid-1970s to the mid-1980s, passing the peak of inequality around the end of the 1970s. The same is true for income distribution based on the income data, but only for the national economy as a whole. No systematic changes are observed during the same period for distinct areas such as Java/Outer Islands, Urban/Rural, and their combinations. Changes from 1982 to 1984, in particular, are inconclusive due to different data sources. Probably, Indonesia as a whole was in the phase of improving maldistribution of income during the first half of the 1980s mainly through reducing inequality between sub-areas. However, whether or not improvement occurred within individual sub-areas seems to be inconclusive.

III. ABSOLUTE INCOME INEQUALITY -- ABSOLUTE POVERTY

How many people are living below poverty line? What is the proportion of these very poor people in total population? Are the number and proportion decreasing or increasing? These are the problems which are directly related with absolute poverty. The concept of poverty line is not uniform between different countries, and it changes depending on the level of income or the stage of economic and social development of a country. The standard concept of poverty line is the minimum level of consumption or the corresponding level of expenditure or income, which makes it possible for ordinary people to survive. According to this standard definistion, the population in absolute poverty in the world is said to be about one billion, and the number and proportion of absolutely poor people are not always decreasing in every country.

Table 2 summarizes changes in poverty in Indonesia in terms of both proportion and number. Many researchers have attempted to measure the population in absolute poverty in Indonesia using different concepts of poverty line [See CBS (1984, Table 1) for details]. The most comprehensive, however, seems to be the latest concepts proposed by CBS (for example, BPS II(B) in Table 2). From the CBS study for the period 1976-1981, we can see that the proportion of the absolutely poor population was decreasing steadily during this period, in rural areas, urban areas and the nation as a whole. The same is true, though to a lesser extent, for the number of absolutely poor people. Urban Indonesia is the exception where the number did not decrease steadily but actually increased some years.

There are many other problems in relation with absolute poverty. What produces poverty? What about the relationship between absolute poverty and growth? Why did some countries do better in alleviating poverty than others? What structural characteristics differentiate the successes from the failures? What development strategies and policy packages produce superior outcomes? How do changes in employment opportunities and wage structures relate to the distributional record? Experiences in the developing world may better be examined in the light of these questions. [See Fields (1980), pp. 179-180].

To discover what produces poverty often poverty profiles are used. According to a poverty profile based on SUSENAS 1978, the poor in Indonesia have larger families and more members in the labor force. However, each member of the labor force in a poor household has more dependents to support. The heads of poor households have less education, as do their household members. Members of poor households change jobs frequently, and those already working are more likely to accept additional jobs. The poor are more likely to be looking for work. The poor are more likely to have agriculture as their main sources of income. A smaller proportion of poor households in agriculture work on their own land compared with other households. These are main factors associated with the causes of poverty; there are other factors associated with the consequences of poverty. (See Chernichovsky and Meesook (1984) for details. See also CBS (1984, Section V).)

Table 1. Overtime Changes in Gini Coefficients in Indonesia

<Approach> Year	Indo-nesia	Java	Outer Islands	Urban	Rural	Java, Urban	Java, Rural	Outer, Urban	Outer, Rural	Data Sources	Name of Researcher
<Expenditure>											
64/65	-	-	-	-	-	-	0.328	-	-	Susenas	King & Weldon
64/65	0.389	-	-	-	-	-	-	-	-	"	Sundrum
67	-	-	-	-	-	0.301	0.257	-	-	" & SBH	H. Esmara
69/70	-	-	-	0.341	0.346	-	-	-	-	Susenas	van Ginneken
69/70	-	-	-	-	-	-	0.309	-	-	"	King & Weldon
70	-	-	-	0.327	0.339	0.312	0.298	-	-	" & SBH	H. Esmara-
70	0.346	0.321	0.328	0.327	0.339	0.332	0.298	0.300	0.330	Susenas	Sundrum
76	0.346	0.357	0.311	0.368	0.304	0.397	0.296	0.306	0.298	"	"
76	-	-	-	0.368	0.304	0.398	0.296	-	-	" & SBH	H. Esmara
76	0.34	-	-	0.35	0.31	-	-	-	-	Susenas	CBS
78	0.38	-	-	0.38	0.34	-	-	-	-	"	"
80	0.34	-	-	0.36	0.31	-	-	-	-	"	"
81	0.33	-	-	0.33	0.29	-	-	-	-	"	"
84	0.33	-	-	0.32	0.28	-	-	-	-	"	"
<Income>											
75	-	0.590	-	-	-	-	-	-	-	Pilot S.	P.S. Gupta
76	0.52	-	-	0.49	0.50	-	-	-	-	Sakernas	S.F. Poli
76	0.492	0.505	0.461	0.432	0.474	0.445	0.479	0.402	0.456	"	CBS
77	0.521	0.531	0.495	0.440	0.512	0.446	0.517	0.429	0.493	"	"
78	0.504	0.521	0.425	0.445	0.498	0.487	0.483	0.360	0.437	"	"
82	0.454	0.447	0.464	0.386	0.434	0.394	0.411	0.365	0.460	"	"
84	0.421	0.435	0.389	0.411	0.378	0.418	0.380	0.391	0.356	Susenas	"

Sources: CBS (1983, 1987), Sundrum (1979), and Perera (1977).

Table 2. Overtime Changes in Poverty Incidence in Indonesia

Year	Indo-nesia	Java	Outer Islands	Urban	Rural	Poverty Lines, Criteria	Data Sources	Name of Researcher
<Ratio, %>								
69/70	-	-	-	80	60	calory and protein intakes	Susenas	van Ginneken
69/70	-	60	34	-	-	'calorie' standard	"	H. Esmara
69/70	-	54/57*	38/28*	-	-	rice: 360kg / 240kg *	"	Sajogyo
69/70	50	-	-	-	-	"	?	ESCAP
75	57	-	-	-	-	"	?	"
76	49	56	22	45	50	BPS II(B): Rp.5000 / Rp.3000 *	Susenas	Perera
76	40	-	-	39	40	" : Rp.4552 / Rp.2849 *	"	CBS
78	33	-	-	31	34	" : Rp.4969 / Rp.2981 *	"	"
80	29	-	-	29	28	" : Rp.6831 / Rp.4449 *	"	"
81	27	-	-	28	26	" : Rp.9777 / Rp.5877 *	"	"
<Number, million>								
76	54.2	-	-	10.0	44.2	BPS II(B): Rp.4552 / Rp.2849 *	Susenas	CBS
78	47.2	-	-	8.3	38.9	" : Rp.4969 / Rp.2981 *	"	"
80	42.3	-	-	9.5	32.8	" : Rp.6831 / Rp.4449 *	"	"
81	40.6	-	-	9.3	31.3	" : Rp.9777 / Rp.5877 *	"	"

* Urban figure is given on the left-hand side of slash (/), while rural figure on the right-hand side.
Sources: CBS (1984), Booth and Sundrum (1981), and Perera (1977).

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PART 2

DEVELOPMENT OF INCOME DISTRIBUTION -- 1978, 1982 AND 1984 IN INDONESIA

I. INTRODUCTION

I.1. Background

Since the inception of PELITA III changes have taken place in the strategy of Economic Development in Indonesia. The question of even distribution in the Trilogy of National Development has been accorded first priority, but this does not necessarily imply that the aspect of economic growth and national stability is unattended to.

In the Broad Lines of the State Policy (GBHN) it is stated clearly that the Indonesian development is aimed at increasing the national income and at the same time ensuring an even distribution of income for the whole people. This distribution of income should be even among the regions and layers of society. The current of thought stressing this aspect of even distribution has at first become the object of fierce debate by early 1970 but since then it has been given first place in the program for development. The concept of income distribution in Indonesia is reflected in one of the eight programs for distribution in the trilogy of Indonesian development hitherto since PELITA III.

Various studies have been made by experts in Indonesia and the results vary according to the data and approach adopted in their studies. At the inception of PELITA III the Central Bureau of Statistics (BPS) conducted a study on the income distribution in Indonesia and the result has already been published. This study has as its main objective to find out what the position is with the distribution of income at the beginning of said Pelita.

After the fifth year of PELITA III there was the desire to measure again the income distribution in Indonesia to see whether our program for diminishing the discrepancy of income among layers of society was successful.

Experts for economic development were divided into different schools of thought; there were those stressing growth as a matter of economic principle (GNP oriented) and those which were aware that with growth alone the aim of development to raise the standard of living of the people would not be achieved. The attack by economic expert Mahbul Ul Haq against the Development Strategy carried out since 1960, and which was supported with facts about the cruelty of strategy which placed emphasis on economic growth, has opened up a new horizon in the concept of economic development strategy.

The dream to improve the well-being of the lower income group of the society through the tricle down effect proves to be in vain. It is therefore that since 1970s a shift of strategy has taken place in which the aspect of justice has been given main attention. The result achieved thus far may be described in the following sections with the prior understanding that available data re limited and difficult to obtain.

I.2. Distribution of Income in Indonesia

The calculation of income distribution in Indonesia has often been made by experts. There are two approaches, namely the expenditure approach as proxy of income and the income approach itself, while the method of expenditure adopted is the Gini Ratio.

The measurement of income discrepancy with the adoption of expenditure has been done by Dwight King & Peter Weldon(1975).

The data used are the result of SUSENAS of 1964/1965 and 1969/1970 with the rural areas in Java as the study object. This calculation has resulted in the Gini coefficient of 0,3280 and

0,3090 respectively. The survey has been continued with the use of data from the Cost of Living Survey in the four major cities of Java, namely Jakarta, Bandung, Yogyakarta and Surabaya collected in 1968/1969 and 1970 for Jakarta. The Gini coefficient obtained was 0,4380 for Jakarta and 0,3630 for the other three major cities. Prior to the Dwight King survey, Sundrum has as a matter of fact made already a calculation of income distribution for Indonesia in 1973 using date from SUSENAS of 1964/1965, and the Gini coefficient obtained was 0,3890. Since then figures of Gini Ratio coefficient from some other experts such as Hendra Esmara (1974, 1978), Van Guineken (1976) and L. N. Parera (1977) have come into the picture.

The data used were the result of SUSENAS and SBH of the Central Bureau of Statistics, while the approach adopted was that of expenditure. Besides, BPS itself has as a matter of fact and with the same approach also made already a calculation of the income distribution for the urban and rural areas since 1976 up till now.

The computation of income distribution with the use of income data has been pioneered also by Irland Suyono and A. T. Birowo although it served only as a Special Survey for the rural areas in Central Java for 1968/1969 and 1973/1974. The Gini Ratio coefficient obtained has turned out to be higher, namely 0,5330 and 0,4950 respectively. These two figures were obviously higher if compared with the result obtained through the expenditure approach.

A further study conducted by Prasun Sen Gupta in the regions of Java and South Sumatra within the framework of the Pilot Project for Man Power in 1975 has resulted in Gini coefficient figure of 0,5900 for Java and 0,5200 for South Sumatra. With the use of data from SAKERNAS of 1976 Sam F. Poli conducted a similar survey and the result did not show much difference from that of the previous studies. The Gini coefficient obtained for the urban area was 0,4900, for the rural area 0,5000 and for Indonesia 0,5200. In 1984 the Central Bureau of Statistics has conducted a similar survey using income data from SAKERNAS in 1976, 1977 and 1978. The Gini Ratio coefficient obtained was around 0,5 national-wise, but the figure for the urban area was lower compared with the rural area. It seems that discrepancy of income is higher in the rural area than in the urban area.

Table 1 and 2 have shown that the figure of Gini Ratio coefficient obtained through the expenditure approach, ranging from 0,25 to 0,43, is always higher compared with that obtained through the income approach, namely 0,43 to 0,59.

I. 3. Survey Objective

This survey on income distribution has as its objective to study and measure in terms of quantity the level and development of the average family income and its distribution in 1978 - 1982 and 1984. This survey is a follow-up to a similar study for 1976 - 1978. Apart from the fact that data are limited and difficult to obtain, it is expected that the result of this study will give an indication of a change in the level of discrepancy of the income distribution among layers of the society, so that one will know about the results achieved in carrying out the program for even distribution.

I. 4. Systematization of Writing

The systematization adopted in writing this study report is as follows: In chapter Ia brief description is made about the historical background of study, the study of income distribution in Indonesia by experts and the approaches for computation. The objective of study is also elucidated in this chapter.

In chapter IIa a description is given about classification of income distribution to determine the field of activity, type of work and professional status of the family under study, concept and definition adopted for study. In this chapter it is mentioned that the adopted method for computation of income discrepancy is the Gini Ratio and the World Bank Criteria.

In chapter IIIa picture is given about the development of Gross Domestic Product and national income per capita for 1978 - 1984. Since the national income per capita does not illustrate as yet the actual family income the figures from SAKERNAS, nominal as well as factual,relating to the level and development of family and per capita income in 1978 and 1982 are presented. The development of average income is shown with comparison between the urban and rural areas, between Java and the outer regions and comparison based on field of activity, type of work and professional status.

In chapter IV an illustration is given about the development of income distribution n Indonesia in 1978 and 1982 with comparative data as mentioned in chapter III. The comparative Gini coefficient and the distribution of income according to the World Bank Criteria are described also in this chapter.

As the family income in 1984 cannot be compared with the result of SAKERNAS because of existing constraints, the same will be explained in chapter V.

Finally, a summary and conclusion of the result of this study will be given in chapter VI.

Table 1 Some Results of Gini Coefficient Computation through Expenditure Approach

Name of Researcher	Data Source	Data Year	Object for Study	Gini Coefficient		
				City	Village	City + Village
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Dwight King & Peter Weldon	SUSENAS	1964-1965	Rural area in Java	-	0,3280	-
		1969-1970	Rural area in Java	-	0,3090	-
	COST OF LIVING SURVEY	1968-1969	Bandung Yogyakarta Surabaya	0,3630	-	-
		1970	Jakarta	0,4380	-	-
2. Sundrum	SUSENAS	1964-1965	Indonesia	-	-	0,3890
3. Hendra Esmara	SUSENAS & SBH	1970	Indonesia	0,3265	0,3387	-
		1976	Indonesia	0,3680	0,3043	-
		1967	Java-Madura	0,3006	0,2567	-
		1970	Java-Madura	0,3119	0,2977	-
		1976	Java-Madura	0,3976	0,2955	-
4. Von Guineken	SUSENAS	1969-1970	Indonesia	0,3410	0,3460	-
5. L.N. Parera	SUSENAS	1976	Indonesia	-	-	0,3459
6. Central Bureau of Statistics	SUSENAS	1976	Indonesia	0,35	0,31	0,34
		1978	Indonesia	0,38	0,34	0,38
		1980	Indonesia	0,36	0,31	0,34
		1981	Indonesia	0,33	0,29	0,33
		1984	Indonesia	0,32	0,28	0,33

Source: Hananto Sigit, the problem of income distribution computation in Indonesia, Prisma January 1980, LP3ES and Annual Statistics 1985, BPS.

Table 2 Some Results of Gini Coefficient Computation through Income Approach

Name of Researcher	Data Source	Data Year	Object for Study	Gini Coefficient City	Gini Coefficient Village	Gini Coefficient City + Village
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Irland Suyono and AT.Birowo	SPECIAL SURVEY	1968-1969	Central Java Rural area (Paddy)	- -	0,5330 0,4950	- -
2. Prasun Sen Gupta	PILOT SURVEY FOR MAN POWER	1975 1975	Java South Sumatra	- -	- -	0,5900 0,5200
3. Sam F. Poli	SAKERNAS	Sep. 1976	Indonesia	0,4900	0,5000*	0,5200
4. Symaprasad Gupta	MACRO MODEL	1974 1985 1987	Indonesia Indonesia Indonesia	- - -	- - -	0,4220 0,4540 0,5610
5. Central Bureau of Statistics	SAKERNAS	1976 1977 1978	Indonesia Indonesia Indonesia	0,4317 0,4404 0,4445	0,4739 0,5120 0,4979	0,4919 0,5211 0,5039

Note *) Limited to Agriculture

Source : 1. *Hananto Sigit, the problem of income distribution computation in Indonesia,* Prisma January 1980, LP3ES and Annual Statistics 1985, BPS.

2. Level and Development of Income Distribution in 1976-1978, BPS.

II. CONCEPT, DEFINITION, SOURCE OF DATA AND METHOD OF STUDY

II. 1. Classification of Income Distribution

The distribution of income may be classified in various ways which are suitable to the purpose of observation, for instance according to class of income, source of income, social-economic grouping of the society, type of work, field of activity, sex type and so on. The unit for observation is the family and income in the following review will therefore, be classified according to monthly family income. The classification of income distribution to be reviewed is conducted in accordance with the available data, for instance about field of activity, type of work, professional status, while distinction is made between urban and rural area, Java and outside Java.

II. 2. Adopted Concepts

Concepts that may be adopted are *inter-alia those concerning classification of family, income,* field of activity, type of work and professional status.

a. Family Classification

The grouping of family into the field of activity, type of work and professional status classification is made as follows:

1) For a non-farmer family, classification is determined by the field of act-

ivity, type of work and professional status of the family member with the largest income.

2) For a farmer -family:
   a) If the largest monthly income is derived from farming, classification is determined by the field of activity, type of work and professional status of the head of the family.
   b) If the monthly income derived from farming is not the largest, classification is determined by the field of activity, type of work and professional status of the family member with the largest income.

b. Monthly Family Income

The monthly family income is the total of income of all the family members. This income is derived from various sources, namely farming, employment and additional sources such as house and land rental, interest,pension, remittance and other earnings within the family.

c. Field of Activity

What is meant by field of activity is the type of activity of employment, of a business enterprise or institution where one is or has ever been in employment for the past week.
The classification of the field of activity according to ISIC (International Standard of Industrial Classification) has been adjusted to become Indonesian Field of Activity Classification (KLUI).
Field of activity is divided into:

1) Agriculture, Forestry, Employment and fishery.
2) Mining and Extraction.
3) Processing Industry.
4) Electricity, Gas and Drink Water.
5) Construction.
6) Whole-sale and Retail business, Restaurant and Hotel.
7) Transportation, Godown and Communication.
8) Finance, Insurance, Leasing and Estate Business.
9) Public and Social Services.
10) Others.

d. Type of Work/Occupation

What is meant by type of work is the kind of work performed by a person who is or has even been in employment for the past week. The classification of type of work according to ISCO (International Standard for Classification of Occupation) has been adjusted to become Indonesian Classification of Occupation (KJI).
Type of Work/Occupation is divided into:

1) Professional, Technical Expert and the Like.
2) Management and Organization.
3) Administration and Other Supporting Agents.
4) Sales.
5) Services.
6) Farmer.
7) Producer and Operator of Transport Equipment.
8) Others.

e. Professional Status

Professional status means the position of a person in doing his work. Professional status may be classified as follows:

1) Entrepreneur without employee: is one who is performing work or running a business at his own risk/responsibility and with no person employed for wages; probably members of his family are assisting him without pay.
2) Entrepreneur with employee: is one who is performing work or carrying out business at his own risk/responsibility and in doing so is assisted by one or more persons which are employed for wages.
3) Employee/personnel: is one who is working for pay or wages in the form of money or goods.
   In this review the working member of the family is categorized as employee/personnel.

II. 3. Data and Related Problem

The data adopted in this research study is the result of Survey on National Work Force (SAKERNAS) for 1978 and 1982, while for 1984 the result of Survey on National Social-Economy is in use, particularly the data collected through the family consumption/expenditure module. Information on family incomes is also collected through this module.

It should be pointed out that there is a difference between the objects of income collected by SAKERNAS and those by SUSENAS. As a result the levels of average family income obtained by the two surveys are also different. The income data collected through SAKERNAS, in 1982 particularly, are based on interview with every member of the family who is 10 years of age and over working during the past week. Income is derived from the main occupation, additional work and other sources such earnings from house rent/lease, rent of land, interest, pension allowance, and earnings of transfer. Since the incomes recorded are confined only to those received by each member of the family aged ten and over the incomes obtained do not illustrate the total actual incomes of the family. There may be earnings of transfer which remain unrecorded, such as earnings of family members aged less than ten. Besides, the questionnaire on incomes is lacking in detail and consequently some individual income might be overlooked, thus it is most likely that figures reported by SAKERNAS are on the low side.

In the case of the Survey on National Social-Economy (SUSENAS) for 1984, although the intention is to obtain data about householders consumption/expenditure the survey has nevertheless collected also data about family incomes. The latter are used as checking material to examine the relevancy of expenditure to family income. SAKERNAS does not have this control system. Besides, the more detailed filling form of SUSENAS 1984 will facilitate the accommodation of incomes derived from various sources. It should be pointed out that the inquiry approach of SUSENAS 1984 remain directed toward members of the family with no limitation of age. Recording in the filling form, except for the block wages and salaries, is not conducted on an individual basis, there is no way for tracing the income of each member of the family.

Different from the SAKERNAS data, the date of SUSENAS 1984 relating to the inflow of money from other sources such as sales of stocks, immovable property and second-hand goods, deposit withdrawals, claim on insurance, winning "arisan" (rotary saving), loaning and borrowing are provided in further detail. The differential in the level of average family income reported by the two surveys might also be influenced by divergent estimates of rent for houses occupied by the owner himself.

In view of the above and in order to avoid error, care should be taken in reviewing the relevancy of the income data produced by SAKERNAS and SUSENAS. The data of incomes from SAKERNAS appear to be on the low side because its objects for estimation are very limited, while the data from SUSENAS 1984, though its objects for measurement are better, do not seem to be quite perfect yet due to an under-estimation mainly affecting the higher class of income.

In spite of this, the average income figure from SUSENAS will appear to be higher compared with that shown by SAKERNAS. A comparison of the average income figures of SAKERNAS 1978 with those of SAKERNAS 1982 may be made without difficulty, but once again if one is to make a comparison of these figures with those for 1984 it should be done cautiously. This reminder will hold if one is to measure the success of the program for even distribution of incomes, according to the World Bank Criteria and Gini Coefficient.

II. 4. Territorial Objects of Study

The object under study by SAKERNAS 1982 comprises the whole Indonesian territory, but for the provinces of Irian Jaya and East Timor restricted only to the accessible areas. The object of study by SUSENAS 1984 is the same as SAKERNAS 1982. The sample of family which is the unit for observation by SAKERNAS 1982 comprises 60.000 householders consisting of 20.080 families in urban areas and 30.920 families in rural areas. The break down figures by region are 23.960 families in Java and 36.040 families in outside Java.

The level of development of the average nominal family income may be seen from the data of SAKERNAS 1978 and 1982. To find out the level of development of the average actual family income some supporting data are in use, such as index of consumer prices, price index for 9 basic stuffs in Java and outside Java and index of price paid by farmers. For population data the result of Census 1980, Population Registration 1982 and Population Projection 1984 are in use. The number of population in 1982 and 1984 is adopted as a balancing figure to measure actual income.

II. 5

To find out the level of monthly family income the average value of income according to region, field of activity, type of work and professional status is being used, and to find out the discrepancy in the distribution of incomes two approaches are adopted, namely Gini Ratio and World Bank Criteria.

a. Gini Ratio

To illustrate income discrepancy various method may be adopted. By following Bjerke Classification, Ecafe has divided the various measurements of discrepancy in the distribution of incomes into three groups, i.e.:

a) followers of the statistical theory; b) the group drawing up the rules of income distribution which are generally applicable and c) the graphic method. In practice, the method commonly in use is the drawing up of generally applicable rules of income distribution, combined with the use of graphic, which will make it easier for the user to draw a conclusion.

In this method various formules are adopted, such as Gini Ratio, Oshima Index, Kuznets Index. Each of the above formules has its advantages and disadvantages, but generally the Gini Ratio is more in use because this formule may be embodied into the Lorenz Curve and provide a visual picture of the discrepancy in the distribution of incomes in a given society and which is easy to measure.

The Gini Ratio is using the Lorenz Curve as supporting agent in the estimation. On the contrary, the Lorenz Curve is nothing more than a graphic picture showing the percentage of assets 8e.g. income) owned by a certain percentage of each group of the society in the study area and classified in sequence from the lowest to the highest. For instance, a picture showing that 10% of the poorest population is owning only 3% of income, 40% of the poorest population is owning only 18% of income, 80% of the poorest population is owning only 50% of income and so forth will serve as an illustration of the Lorenž Curve.

The distribution is called even if, for instance, 10% of the poorest population owns 10% of income, 40% of the poorest population owns 40% of income, 80% of the poorest population owns 80% of income and so on. On the contrary, the distribution will be uneven or discrepant if, for instance, 99% of income is owned by 1% of the population only.

The formule adopted in this regard is:

$$G = 1 - \sum_{i=1}^{k} \frac{Pi\ (Qi + Qi - 1)}{10.000}$$

in which Pi = percentage of family from the class of income to i

Q = aggregate percentage of income up to class i

Qi = aggregate percentage of income up to class i-1

K = multiple class

1 and 10.000 = constancies.

The value of Gini Ratio is 0 to 1. If the Gini Ratio = 0, this indicates that there is a perfect distribution, but if the Gini Ratio = 1, this means there is total discrepancy.

b. World Bank Criteria

In order to facilitate the illustration of a problem concerning income discrepancy the World Bank Criteria are also in use.

To review income discrepancy the World Bank has divided the population into three groups, namely:

a) The group of population with low income, which is constituting 40% of the total population.
b) The group of population with medium income which is constituting 40% of the total population.
c) The group of population with high income which is constituting 20% of the total population.

The level of discrepancy in the distribution of income is measured on the basis of the proportion of income enjoyed by 40% of the population belonging to the low income group with the following criteria:

a) The level of discrepancy is high if 40% of the population belonging to the low income group receives less than 12% of the total income.
b) The level of discrepancy is moderate if 40% of the population belonging to the low income group receives 12 to 17% of the total income.
c) The level of discrepancy is low if 40% of the population belonging to the low income group receives more than 17% of the total income.

This measurement is not a comprehensive one, since it is concerned only with the development of low income which is obtained by adding up the first 4 "decide". In this regard "decile" means: "decile" j, being the percentage of income received by 10% of families j; j = 1,2,...... 10. According to Kuznet the discrepancy in developing countries is due to the fact that the group of population in decile 10 receives a very high income. Because of this the magnitude of decile 10 will also be reviewed in this study.

In this survey a comparative study will be made of the level and distribution of family income for the regions, the urban and rural areas and others.

III. DEVELOPMENT OF THE LEVEL OF INCOME

III. 1. Development of Gross Domestic Product

With the implementation of national development since 1969, the Indonesian national income has shown an increasing trend. GDP in real terms based on constant prices in 1973 during Pelita I has recorded an average increase of around 8.6% per annum, exceeding the target set by the government, namely 7.5%. During Pelita II the average increase of GDP in real terms is 7.2% per annum which is slightly lower compared with Pelita I.

With the inception of Pelita III the emphasis of trilogy of development has shifted toward the problem of even distribution without disregard of the need for economic and stability. The GDP in real terms still shows a very high figure, namely 6.1%, although it is lower compared with the target set for Pelita III, which is 6.5%. Although the increase of GDP during Pelita III is lower compared with the previous Pelita it should be noted however, that the price of oil and natural gas in the international market in 1980 has experienced an increase. This increase has a positive impact on the Indonesian economy while many countries are affected by the tremor of economic recession. Table 3 has shown that the growth of GDP in real terms in 1980 has reached a fairly high figure, i.e. 9.9%. However, this growth does not last long since in 1981 the figure has dropped back to 7.9%. The cause of this decrease is undoubtedly the continuing recession in the advanced industrialized countries. The impact of recession is beginning to be felt by the Indonesian economy in 1982 when the growth of GDP has dropped to 2.2%.

In line with the average decrease in the growth of GDP at each stage of the Pelita, the increase of national income is also tapering off.

During Pelita I the average increase is 5.2% per annum, in Pelita II 4.4% and in Pelita III 3.2% (see Table 3). It is understood that national income per capita is not always reflected in the family income.

The cake of national income is distributed evenly among all members of the society, no matter where they live, but in reality this is not so. To get a picture of its distribution, this can be done through the approach of family income.

As one knows, GDP is the total of gross added value of all economic sectors. Economic activities are grouped into 11 sectors. The contribution of each sector in percentage into the GDP is as shown in table 4. It is noted that the contribution made by the agricultural sector is the largest compared with the other sectors, but showing tendency to decrease. During Pelita III the share of the agricultural sector in terms of current prices has experienced a decrease from 29% in 1978 to 26% in 1983, or if based on constant prices, the decrease is from 33% in 1978 to 30% in 1983. The other sectors with the biggest share in the GDP after Agriculture are in sequence trade, processing industry, public services 8government), mining, extraction etc. as shown in Table 4.

Since 1983 BPS has produced a new series of Gross Domestic Product with 1983 as the basic year, which is a follow-up to the former series using 1973 as the basic year. The growth rate of Gross Domestic Product for 1984 based on current and constant prices in 1983 is presented in Table 5. In 1984 it is noted that all the sectors, except construction, have experienced an increase, while banks and other financial institutions have recorded the most rapid increase (19%) compared with the previous years, followed by the processing industry with an increase of 16%. The increase for the other sectors is ranging from 2 to 9%.

Table 3 GDP in Current and Constant Prices in 1973

Year	GDP (Billion Rupiah)		Increase of GDP (%)		National Income Per Capita (Rp.)		Increase of National Income Per Capita (%)	
	Current Price	Constant Price 1973	Current Price	Constant Price 1973	Current Price	Constant Price 1973	Current Price	Constant Price 1973
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1978	22746,0	9566,5	19,5	7,7	138 538	57 104	16,4	4,8
1979	32025,4	10164,9	40,8	6,3	189 781	58 419	37,0	2,3
1980	45445,7	11169,2	41,9	9,9	265 358	62 432	39,8	6,9
1981	54027,0	12054,6	18,9	7,9	312 928	66 859	17,9	7,1
1982	59632,6	12325,4	10,4	2,2	337 716	67 118	7,9	0,4
1983	71214,7	12842,2	19,4	4,2	391 817	67 427	16,0	0,5
Average								
1968-1973	-	-	28,2	8,6	-	-	21,8	5,2
1973-1978	-	-	28,3	7,2	-	-	25,4	4,4
1978-1983	-	-	22,9	6,1	-	-	23,7	3,4
1968-1983	-	-	26,5	7,3	-	-	23,6	4,3

Source : Central Bureau of Statistics.

Table 4 Percentage Distribution of GDP Based on Field of Activity 1978-1983

Field of Activity		Based on Current Prices		Based on Constant Prices; 1973 = 100	
		1978	1983	1978	1983
(1)	(2)	(3)	(4)	(5)	(6)
1.	Agriculture	29.5	26.4	32.8	29.9
2.	Mining & Extraction	19.2	19.4	11.0	7.5
3.	Processing Industries	10.6	12.5	12.9	15.1
4.	Electricity, Gas & Drink Water	0.5	0.7	0.6	0.9
5.	Construction	5.5	6.2	5.5	6.3
6.	Trade	15.2	15.3	16.0	17.4
7.	Transportation and Communication	4.5	4.7	5.4	5.9
8.	Banks and Other Financial Institution	1.7	2.6	1.7	2.2
9.	House Rent	2.9	2.8	3.0	3.1
10.	Government and Defense	7.4	7.3	8.0	9.2
11.	Services	2.9	2.2	3.1	2.6

Note: The total figure is not always 100 because of rounding up.
Source: Central Bureau of Statistics.

Table 5 Growth Rate of GDP According to Field of Activity Based on Current and Constant Prices in 1983, 1984. (in %)

Field of Activity	Based on Current Prices 1984*	Based on Constant Prices 1983 1984*
(1)	(2)	(3)
1. Agriculture, Livestock Breeding, Forestry and Fishery.	16.51	5.52
1.1. Foodstuff Agriculture	17.02	7.40
1.2. Smallholder's Plantation	19.34	2.37
1.3. Estate Plantation	58.01	18.71
1.4. Livestock Breeding and the like	15.04	4.98
1.5. Forestry	-3.95	-8.72
1.6. Fisheries	12.54	2.70
2. Mining and Extraction	14.45	5.88
2.1. Oil and Natural Gas	15.46	6.42
2.2. Mining and other Extraction	-7.25	-5.85
3. Processing Industries	37.98	15.57
3.1. Non-oil and Gas Processing Industry	24.77	6.17
3.2. Oil Refinery	575.27	74.19
3.3. Liquefied Natural Gas	44.65	42.72
4. Electricity, Gas and Drink Water	24.97	4.96
5. Construction	4.91	-2.77
6. Trade	16.35	2.42
6.1. Whole-sale Dealers and Retailers	15.86	1.73
6.2. Hotels and Restaurants	19.55	6.92
7. Transportation and Communication	24.69	8.95
7.1. Transportation	25.50	8.95
7.2. Communication	14.10	8.90
8. Banks and Other Financial Institution	32.00	18.79
9. House Rent	16.01	5.63
10. Government and Defense	13.90	4.99
11. Services	23.90	3.87
12. Gross Domestic Product	18.78	6.13

Source: Central Bureau of Statistics.
*: Revised Figure.

On the whole the Gross Domestic Product for 1984, based on current and constant prices in 1983, has shown a growth rate of 18.78% and 6.13% respectively.

III. 2. Development of the Level of Income 1978 - 1982

The development of Gross Domestic Product in any field of activity of region does not represent as yet the development of the level of family income, since family income is a component of GDP distributed among families.

The percentage of increase in the average monthly family income during a certain period may relatively serve as indicator of a change in the standard of living. A change in the level of actual income may also be seen by comparing the percentage of change in the family income with the percentage of increase of the cost of living or prices of some daily necessaries during a certain period. This comparison will be made in respect of the urban and rural area, Java and outside Java, field of activity, type of work and professional status.

For the period 1978 - 1982 the increase of the average nominal family income is 10.8%. The increase of average annual income in the urban area for the same period is 11.5% and in the rural area 9.2%. This meant that during the period 1978 -1982 there is an increase of average income in all the areas every year (see Table 6).

The measure the development of actual income three different indexes are in use. First, the Index of Consumer Prices in intended to measure the actual income for the urban area in Java and outside Java. For Java the Index of Consumer Prices from the five major cities Jakarta, Bandung, Semarang, Yogyakarta and Surabaya is in use, while the Index of Consumer Prices from the cities of Medan, Palembang, Pontianak, Banjarmasin, Menado and Ujung Pandang is used to measure the actual income in outside Java.

Table 6 Average Monthly Family Income According to Island /Region in 1978 - 1982 (in Rupiah)

Region/Island	1978	1982	Average annual increase/decrease in 1978-1982 (%)
(1)	(2)	(3)	(4)
Urban + Rural area			
Indonesia	27,318	41,211	10.8
		(24,731)	-2.4
Java	22,133	39,620	15.7
		(23,901)	(2.0)
Outside Java	37,265	44,171	4.3
		(26,284)	(-8.4)
Urban area			
Indonesia	44,544	68,860	11.5
		(43,318)	(-0.7)
Java	44,054	67,300	11.2
		(42,404)	(-0.9)
Outside Java	45,402	72,976	12.6
		(45,406)	(0.0)
Rural area			
Indonesia	23,776	33,792	9.2
		(20,047)	(-4.2)
Java	17,764	31,077	15.0
		(18,910)	(1.6)
Outside Java	35,474	38,423	2.0
		(22,640)	(-10.6)

Source: Sakernas 1978 and 1982.

Note: 1. The figure between brackets in column (3) is the actual income based on the year in column (2).

2. The figure between brackets in column (4) is the average increase/decrease of the actual income.

Second, Index paid by farmers obtained from its source in Java, is used to measure the actual income in the rural areas in Java. Third, Index of the nine basic stuffs is intended to measure the actual income for the rural areas in outside Java; the data for this Index can be made available directly.

The Index giving an illustration of the development of the cost of living in Java and outside Java, comprising urban and rural areas, is obtained through the measure unit: number of population. The actual income of a region in any year is obtained by dividing the average monthly family income by the increase of the cost of living in the same region.

The computation of the increase of the cost of living is based on the available data of the previous period, thus the increase of the cost of living for 1982 is computed on the basis of data for 1978. The increase of the cost of living in Java for the period 1978-1982 is 58.71% in the urban areas and 69.73% in the rural areas. These figures have shown that the increase of the cost of living in the rural areas of Java is bigger compared with the urban areas. In outside Java the figures are 60.72% for the urban areas and 69.71% for the rural areas. These figures have shown also that the increase of the cost of living in the urban areas in outside of the cost of living in the rural areas both in Java and outside Java is caused, among others, by transportation difficulties in those areas especially in outside Java.

On the whole for the period 1978-1982 the increase of the cost of living in the urban areas in Indonesia is 59.33%. The figures resulting from the computation have also shown that the increase of the cost of living in the urban and rural areas in outside Java (68.05%) is higher compared with the urban and rural areas in Java (65.77%).

The actual income in Indonesia for 1982 has generally experienced a decrease from 1978, although the average percentage of decline is very small, except in the urban and rural area in Java and the urban area outside Java (see Table 6). In the urban and rural area in Indonesia actual income has declined by Rp.2.587 or 2.4% in 1982 compared with 1978. This decline is the result of the decrease of actual income in the urban area of Rp.1.226 or 0.7% and in the rural area Rp.3.729 or 4.2%.

On the contrary actual income in the urban and rural area in Java has as a whole increased by 2.0% as a result of the small increase of 1.6% in the rural area of Java. Actual income for the urban and rural area in outside Java has shown a decline of 8.4% as a result of the decrease of actual income in the rural area of 10.6% while actual income in the urban area is relatively unchanged.

a. Comparison between Urban and Rural Area

The population in the rural area constitutes a majority at the moment.

It is unfortunate that these people cannot afford to improve their living in the same way as the people in the urban area due to certain constraints, for instance their low level of education. They are fully occupied with work to get their daily meal and most of their time is spent in the field. Very often children do not go to school during the harvest season to help their elders. Further, the scarcity of facility and capital in the rural area is another constraint. The limited facility for transportation, electricity and education, to mention just a few, has resulted in a lower income of the population in the rural area compared with the population in the urban area. So, to minimize the gap between the two groups of income, it is only natural that the population in the rural area deserves more attention.

In view of the foregoing the problem concerning the less developed rural area has been tackled in a more proper and systematic manner today. Various program for improvement have been introduced, such as the loan/credit scheme for the lower income group in the rural area, cooperatives, mass-guidance program to step up rice production and price control. With these programs it is expected that the standard of living of the population in the rural area will not be far behind compared with that of the population in the urban area.

For the period 1978-1982, as Table 6 has shown, the percentage increase of the monthly family income in the rural area does not differ much from that in the urban area. The percentage of average annual increase of monthly income in the urban area is 11.5% which is slightly higher compared with the rural area 9.2%. After adjustment to the development of the cost of living it turns out that the average decline in the yearly actual income in the urban area is smaller than in the rural areas. This means that the increase of the cost of living in the rural area is higher than in the urban area. In the case of Java it is noted that monthly family income in the rural area has shown a higher percentage of average annual increase compared with the urban area. However, if the development of the increase of actual income is taken under review the opposite is true; the figure is smaller compared with the urban area. In the urban area of Java the percentage of average annual increase in the monthly family income is 11.2%, but the average actual income has shown an annual decline of 0.9%. On the other hand, the percentage of the average annual increase of monthly family income in the rural area of Java is 15.0%, but actual income has increased by 1.6%.

From the above-mentioned the conclusion may be drawn that income in the rural area has experienced a bigger "deficit" than in the urban area if the actual income in 1982 is to be projected against 1978.

The percentage of average annual increase of the monthly family income in the rural area of outside Java for 1978-1982 is 2.0%, compared with the urban area 12.6%. And if actual income is to be taken under review, the rural area of outside Java has shown on the average an annual decline of 10.6% or Rp.12.834 from 1978 to 1982. For the urban area in outside Java actual income does not show a significant change, namely Rp.45.402 in 1978 and Rp.45.406 in 1982.

b. Comparison among Regions

On the whole for the period 1978-1982 outside Java has on the average a higher family income than Java. However, if the average annual increase is to be taken under review, Table 6 has shown that the increase in outside Java for the same period is relatively small, 4.3%, compared with Java 15.7%. Similarly, the actual income in outside Java is higher than in Java.

But the average actual income per annum in Java for the same period has increased by Rp.1,788 or 2.0%, while actual income in outside Java has decreased by Rp.10,981 or 8.4%. The higher increase of average income in outside Java in its comparison with Java applies also to the urban area; the average annual increase in the urban area of Java is 11.2%, while the increase for the urban area of outside Java is 12.6%. The actual income in the urban area of outside Java is also higher compared with Java.

If the average annual increase/decrease as shown in Table 6 is taken under review, the Java region has for the period 1978-1982 recorded a decline in actual income of 0.9% or Rp.1,650.

This is not the case with the region in outside Java whose actual income is more or less the same; the figure is Rp.45,402 in 1978 and Rp.45,406 in 1982. The increase in actual income for the rural area in Java is in fact the one and only increase that has taken place for the period 1978-1982, as the other areas in Java and outside Java, including the urban area, have experienced a decline.

In making a comparison between Java and outside about income development it is noted that the picture in the rural area is the same as the urban area. The average monthly family income for the rural area in outside Java is higher than in Java. The average monthly income for the rural area in Java is Rp.17,764 in 1978 and Rp.31,077 in 1982, which means an average annual increase of 15.2%. But the actual income for the same period has followed a different course. In the rural area of Java the average annual increase if 1.6% or Rp.1,146. Although the rural area in outside Java has a higher average family and actual income (Rp.38,423 and Rp.18,910), the decline of actual income in outside Java is relatively bigger, about 10.6% the rural area in outside Java from 1978 to 1982 is Rp.12,834.

The above comparison is made in respect of the urban and rural area in Java and outside Java. It follows from the above description that the average monthly family income and actual income in outside Java is always higher if compared with Java.

A comparison between the urban area in Java and the rural area in outside Java, and between the rural area in Java and the urban area in outside Java is given as follows.

A comparison of income for the urban area in Java and the rural area in outside Java in 1978 and 1982 reveals that the average monthly family income for the urban area in Java is on the whole higher and this trend seems to increase further. In 1978 the ratio of family income for the rural area in outside and the urban area in Java is 1 : 1.24, but in 1982 it goes up to 1 : 1.75. If comparison is made in terms of actual income, the result will show that the average annual decline is bigger for the rural area in outside Java, namely 10.6% (Rp.12,834) compared with the urban area in Java, 0.9% (Rp.1,650).

The average increase of family income for the rural area in Java from 1978 to 1982 is 15.0% or Rp. 13,313. Compared with the urban area in outside Java the figure will show that the average monthly family income in 1978 and 1982 is bigger for this area than in the rural area of Java. The average annual increase of monthly family income for the urban area in outside Java in 1978-1982 is 12.6%, which is somewhat lower compared with the rural area in Java.

In terms of actual income the figure for the urban area in outside Java remains unchanged, but showing an increase of 1.6% or Rp.1,146 for the rural are in Java. It should be understood that in reviewing income development the result depends on sampling. The result may vary according to the different methods adopted for sampling. Besides, statistical data may be confusing. Average income is a measure the value of which is influenced by one or more extreme values (extremely big and extremely small).

The median is a statistical measure the value of which is not influenced badly by the extreme values of any group of data. Another advantage in presenting the median value together with the average value is that it is possible to see the direction of spreading for income distribution. If the average value is bigger than the median value this means that the distribution of incomes is moving to the right, in other words more than 50% of the families have a smaller income than the average income and the majority of families is grouped into the class of lower income.

Table 7 Average Household Income per Month According to Island/Region in the Year 1978 and 1982 (Rupiah)

Island/Region	1978	1982	Average increase per year 1978-1982 (%)
(1)	(2)	(3)	(4)
City + Rural			
Indonesia	17,591	30,627	14.9
Java	13,795	29,510	20.9
Outside Java	28,779	32,608	3.2
City			
Indonesia	31,942	56,822	15.5
Java	28,956	54,119	16.9
Outside Java	36,715	62,216	14.1
Rural			
Indonesia	15,761	25,263	15.5
Java	12,175	24,295	18.8
Outside Java	26,966	28,277	1.2

Source: Sakernas 1978 and 1982.

On the contrary, if the average value is smaller than the median value it may be said that the distribution is moving to the left, meaning that more than 50% of the families have an income higher than the average value, and the majority of families is grouped into the class with higher income.

Table 6 and 7 have shown that the average value for the island/region in 1978-1982 is always bigger than the median value. This indicates that the distribution of incomes in Indonesia for the same period is moving to the right without fluctuation, and this implies that the income for more than 50% of the families is smaller than the average income, thus the majority of families belongs to the group with low income.

A change may occur in the level of discrepancy of the income distribution, and this can be measured according to the statistical theory, for instance through the Pearson Coefficient based on the differential between the median and average value or through the Gini Ratio.

C. Comparison of Business Sectors, Type and Status of Work

In out next discussion, we would notice the average income of a household in a month by the business sectors, type and status of work. From this point we would know which business sector, type or status of work have the average income within a high category if compared to others and what their growth rate per year, in addition to seeing which the lowest or medium, not the highest and not the lowest are.

Table 8, or the average monthly household income indicates that the processing industry sector undergoes the highest average income increase. The average increase per year is 14.9%, that was from Rp24,906 in 1978 to Rp43,370 in 1982. This sector expectedly to serve as the backbone of the current long term economy now indicates a good prospect. If we have a look at the contribution of this sector to the PDB (Gross Domestic Income) on the basis of the current price in 1969 of 9.23% it increased to 12.5% in 1983.

Though the business sector in finance and insurance still dominates the highest income in 1982, namely Rp96,568 but the average increase percentage per annum from 1978 to 1982 constituted the lowest, that was 6%, followed by the agricultural sector with the annual average increase of 6.2% from 1978 to 1982. The agricultural sector has the lowest average income if compared to others.

Compared to the sector of finance and insurance, on the average the agricultural sector only receives one-third of the average income thereof. Thus, the Indonesia nation mostly operating in the agricultural sector has a relatively low average income, that is Rp27,915.

In addition, the trade sector also has a high average increase after the processing industry sector, that is 13.6%.

In general it is obvious that all sectors have a quite high increase. It is very encouraging because in the less favourable economic condition the Indonesian nation could still develop and increase the income which is indirectly improving the living standard to a better one.

Likewise the average growth rate of income of all types of work in the period of 1978-1982. The increase is quite high, except the average householder income under the category of manual labour decreasing by 10.7% on the average per year (Table 9). The highest increase is the service works in which in 1978 it was Rp25,895.- in 1982 in increased to Rp44,252. It means the average annual increase is 14.3%. Nonetheless, service sector is not the type of work having a high average income rate, if compared to the Management works with the average income of Rp203,875. It is just about one-fifth. Nevertheless, the management and administration work has the lowest average annual increase if compared to others. It is just 3.2%. The types of work with quite high average annual income increase are the production personnel of the transportation means/operators and the sales personnel, respectively 13.5% and 13.4%. The administrative work, with the average income lower than the professionals and technicians in 1978 was found higher in 1982. It was Rp85,254 whereas for the professionals and technicians it was Rp84,164. Thus being the administrative personnel constitutes a type of work having the highest average income after the management.

The average household income per month by the status of work is presented in Table 10. In 21978 the status of employers with the laborers had the highest average income, that was Rp28,960, then from 1978 to 1982 it increased by 6.8% per year so that in 1982 it was Rp37,624. Nonetheless, it did not constitute the highest average income in said year because the employees status underwent much higher increase in income, that was Rp27,895 in 1978 to Rp49,127. It means the increase is 15.2%, whereas for the employers without any employees the average income remains in between the status of employees/laborers and employers with laborers. Likewise, the annual average increase is 7%.

It should be noted herein that the design of sampling in the surveys under this income data is made by more emphasizing the regional classification (provinces and urban/rural areas) than the business sectors classification, types of work and status of work. In other words, the samples in the surveys may be too small to represent a business sector, type of work and status of work so that the observed changes may be more related to the sampling fluctuation.

Table 8 Average Household Income per Month in Indonesia According to Business Field in the Year 1978-1982 and its Development

(Rupiah)

Business Field	1978	1982	Increase per year (%)
(1) (2)	(3)	(4)	(5)
1. Agriculture, Forestry, Hunting and Fishery.	21,948	27,915	6.2
1.1 People Agriculture	24,222	26,038	1.8
1.2 Estate Agriculture	34,907	36,295	1.0
1.3 Cattle Breeding	14,268	26,363	16.6
1.4 Agriculture & Cattle Breeding Service	14,964	23,153	11.5
1.5 Forestry	29,149	29,046	-0.1
1.6 Fishery	35,274	44,073	5.7
2. Mining and Extraction	42,214	59,268	8.9
3. Processing Industry	24,906	43,370	14.9
4. Electricity, Gas & Drinking Water	50,420	66,288	7.1
5. Building	31,874	49,452	11.6
6. Wholesalers, Retailers as well as Restaurant and Hotel	29,678	49,459	13.6
7. Transportation, Warehousing and Telecommunication	34,287	52,463	11.2
8. Finance, Insurance, Land & Building leasing Business & Company service	76,627	96,568	6.0
9. Individual, social and Public service	41,378	65,378	12.1
10. Activities which limits are not yet clear	37,258	-	-

Source: Sakernas 1978 and 1982.

From the overall discussion in this Chapter III, we have not been able to picture the pattern of the income distribution. Though the average household income during the period of 1978 to 1982 increased, the increase itself might have only occurred in the higher income strata, where as the lower one decreased. It just makes the gap between the poor and the rich wider. Therefore, in the following chapters we will discuss whether or not the income distribution pattern in the period of 1978 - 1982 became better.

Table 9 Average Household Income per Month in Indonesia According to the Type of Works in the Year 1978 - 1982 and its Development (Rupiah)

Type of Work	1978	1982	Increase per year (%)
(1) (2)	(3)	(4)	(5)
1. Professional Personnel, Technicians with are connected with that	54,124	84,164	11.7
2. Managerial Personnel and Administrative Procedures	179,993	203,875	3.2
3. Administration Personnel and personnel which are connected with that	53,336	85,254	12.4
4. Sales Undertaking Personnel	29,764	49,207	13.4
5. Service Undertaking Personnel	25,895	44,252	14.3
6. Agricultural Undertaking Personnel including plantation, cattle breading, Fishery, Forestry and Hunting	21,949	27,930	6.2
7. Production Personnel and those which are connected with that operator of transfer equipment and casual manpower	26,987	44,734	13.5
8. Manpower which cannot be classified into a certain job	61,456	39,146	010.7

Source: Sakernas 1978 and 1982.

Table 10 Average Household Income per Month in Indonesia According to the Working Status in the Year 1978 - 1982 and its Development (Rupiah)

Working Status	1978	1982	Increase per year(%)
(1) (2)	(3)	(4)	(5)
1. Laborers/Employees	27,895	49,127	15.2
2. Entrepreneurs with Laborers	25,371	33,205	7.0
3. Entrepreneurs with Laborers	28,960	37,624	6.8

Source: Sakernas 1978 and 1982.

IV. GROWTH OF INCOME DISTRIBUTION OF 1978 AND 1982

IV.1. The Growth of Income Distribution

The income distribution in Indonesia in an overall way is presented in Table 11. In 1978, 40 percent of the community of the lower strata enjoyed 11.08 percent of the income and in 1982 they enjoyed a higher income, that was 13.63 percent of the total income. If compared to the criteria of the World Bank, this group, during said period, has undergone a change in an imbalance income distribution from a high rate in 1978 to the medium one in 1982 (vide Table 12). The income percentage enjoyed by 10 percent of the population of the higher strata in said period decreased from 37.15 percent in 1978 to 34.01 percent in 1982. The Gini Ratio coefficient constituting the extent of the imbalance income during said period has undergone a significant change from 0.5039 to 0.4535 (vide Table 13).

In the urban areas of Indonesia the condition of the lowest 40 percent group in an overall way is better. In 1978 they received 13.92 percent of the income and in 1982 their income increased to 16.98 percent. It means, based on the criteria of the world bank the income distribution unbalance rate in the urban areas of Indonesia can be considered mediocre and it did not underwent any change in 1982. The highest 10 percent group has the income percentage value of not as high as the 10 percent of the high income group in Indonesia in an overall way. It was only 32.17 percent in 1978 and 24.35 percent in 1982. Further, if seen by the Gini Ratio, it was consecutively 0.4445 and 0.3863 during said period. The Gini Ratio in the urban areas is always smaller that throughout Indonesia.

The group of 40 percent of the lower strata population in Indonesia received 11.42 percent and 14.67 percent of the income respectively in 1978 and 1982. According to the criteria of the World in 1978 the rural ares in Indonesia has a high imbalance rate, but in 1982 it changed to mediocre.

If seen from the low 40% group it is found that the income distribution imbalance level in the urban areas in Indonesia in 1978 and 1982 is lower than that in the rural ares. For the highest 10% group, the rural areas in Indonesia have a lower imbalance rate than the urban areas. This community in 1978 had 37.01 percent of income, in 1982 it decreased to 32.64 percent. The Gini Ratio coefficient by the household income class in the rural areas during said period was 0.4979 and 0.4337 consecutively indicating an encouraging growth.

a. Comparison between the urban and rural areas

Table 11, the comparison between the urban and rural areas, in Java indicates that the lowest 40 percent of the urban population in Java consecutively received 11.99 percent and 16.55 percent of income in 1978 and 1982. Whereas the lower 40 percent group in the rural ares of Java during the same period, received 12.52 percent and 15.62 percent of income. The 10 percent group of the rich society in the rural areas of Java received consecutively 35.02 percent and 29.84 percent. The Gini Ratio of urban areas of 1978 is a little higher to that of rural areas whereas in 1982 the Gini Ratio of the urban areas in Java is a little lower than that in rural areas. Based on the criteria of the World Bank in 1978 and 1982 the urban areas of Java can be considered having a medium imbalance rate, though in 1978 it was in the border line of the high imbalance rate. The rural areas of Java in 1978 and 1982 can also be categorized into the medium imbalance rate.

b. Inter-regional comparison

The income distribution imbalance rate outside Java in 1978 was lower than that in Java. It is reflected by the bigger portion of income received by 40 percent of the lower group community in Java. However in 1982 the contrary occurred. The lower 40 percent group in Java received 14.01 percent whereas it was 13.03 percent outside Java. Based on the criteria of the World

Bank, in 1978 Java had a high imbalance rate and outside Java has a medium imbalance rate. The Gini Ratio outside Java in 1978 was 0.4249, lower than that in Java. But in 1982 the contrary occurred.

Further it can be noted the comparison between the urban areas in Java and outside Java. The urban areas outside java had a low imbalance rate during the period of 1978 and 1982. Based on the criteria of the World Bank, it occurred to the lower 40 percent community. For the urban areas in Java the lower 40 percent population group had a medium imbalance rate. Based on the Gini Ratio in the rural areas outside Java and in Java it is found that those outside Java a lower imbalance rate compared to that in Java in 1978, whereas in 1982 it was higher in the rural areas outside Java. If we observe, the high 10 percent community in Java and outside Java is contradictory, in which the high 10 percent community outside Java had a less portion of income than that in Java in 1978, whereas in 1982, the contrary occurred. If we note the urban ares in Java and the rural areas outside Java in 1978 and 1982, we can conclude that based on the observation there was a lower 40 percent community and the Gini Ratio also indicates the same pattern. Based on the observation to the lower 40 percent community in 1978, they who lived in the urban areas received a less portion of income than those in the rural areas outside java (vide Table 11) so that we can conclude that the income distribution imbalance in the urban areas in Java is higher than that in the rural areas outside Java. The Gini Ratio in the urban areas in Java is higher than that in the rural areas outside Java, namely 0.4878 and 0.4366. In 1982 the contrary occurred, in which the urban areas in Java had a lower imbalance rate, both by the lower 40 percent community group and by the Gini Ratio.

Table 11 Development of Percentage of the Household Income Division Pattern According to Island/Region in Indonesia 1978-1982

Island/Region	40 % Low		40 % Midle		20 % High			
					1978		1982	
	1978	1982	1978	1982	10 %	10 %	10 %	10 %
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
City + Rural								
Indonesia	11,08	13,63	34,61	36,00	17,17	37,15	16,36	34,01
Java	11,12	14,01	32,24	36,04	15,99	40,65	16,34	33,61
Outside Java	14,63	13,03	38,15	36,40	15,83	31,39	15,96	34,61
C i t y								
Indonesia	13,92	16,98	36,40	37,93	17,51	32,17	15,74	24,35
Java	11,99	16,55	34,45	37,77	18,54	35,02	15,84	29,84
Outside Java	18,42	18,27	38,49	38,46	15,92	27,17	15,46	28,17
R u r a l								
Indonesia	11,42	14,67	34,68	36,78	16,88	37,01	15,91	32,64
Java	12,52	15,62	34,75	37,53	15,73	37,01	15,99	30,86
Outside Java	14,14	13,39	37,50	36,18	16,20	32,16	15,73	34,70

Source : Sakernas 1978 and 1982

The next comparison is also made between the rural areas in Java and urban areas outside java. During the period of 1978 and 1982, 40 percent of the lower community group in the rural areas of Java received less income than that in the urban areas outside Java. It is indicated in

Table 12 Development of the Discrepancy Rate of the Income Distribution in Indonesia According to Island/Region Based on the World Bank's Criteria 1978-1982

Region / Island	1978	1982
(1)	(2)	(3)
City + Rural		
Indonesia	high	fair
Java	high	fair
Outside Java	fair	fair
City		
Indonesia	fair	fair
Java	high	fair
Outside Java	low	low
Rural		
Indonesia	high	fair
Java	fair	fair
Outside Java	fair	fair

Source: Sakernas 1978 and 1982.

Table 13 Gini Ratio on the Per Capita and Household Income Class According to Island in Indonesia During 1978-1982

Island / Rural	1978		1982	
	Household	Per Capita	Household	Per Capita
(1)	(2)	(3)	(4)	(5)
City + Rural				
Indonesia	0.5039	0.4738	0.4535	0.4448
Java	0.5214	0.4811	0.4467	0.4320
Outside Java	0.4249	0.4196	0.4636	0.4661
City				
Indonesia	0.4445	0.4075	0.3863	0.3799
Java	0.4874	0.4409	0.3938	0.3833
Outside Java	0.3603	0.3440	0.3651	0.3720
Rural				
Indonesia	0.4979	0.4764	0.4337	0.4353
Java	0.4830	0.4586	0.4114	0.4097
Outside Java	0.4366	0.4351	0.4602	0.4695

Source: Sakernas 1978 and 1982.

Table 11. It occurred due to the higher percentage of income received by the high 10 percent group in the rural areas of Java (37.01 percent and 30.86 percent) if compared to that received by the high 10 percent group in urban ares outside Java (27.17 percent and 28.17 percent). The Gini Ratio of the rural ares in Java during the period of 1978 and 1982 is always found higher than that in the urban areas outside Java (vide Table 13). The imbalance rate measured by means of the lower 40 percent group and the Gini Ratio indicates that in the urban areas of Java it is

lower than that in the rural areas in Java. It is because the high 10 percent community received a higher income than that in the urban areas outside Java. Table 12 indicates the income distribution imbalance rate in Indonesia by region on the basis of the criteria of the World Bank during the period of 1978 and 1982. During said period Indonesia in an overall way and Java underwent a decrease in the imbalance rate from high to medium with the Gini Ratio of Indonesia of around 0.50 in 1978 and it continued decreasing to 0.45 in 1982.

For the urban areas of Java, in 1978 they had a high imbalance rate and outside Java, in 1978 they were categorized into the low imbalance rate. From the total regional classification during the period of 1978 and 1982 the urban areas outside Java constituted the only regions having the low income distribution imbalance rate.

The rural ares (except the rural areas of Indonesia in an overall way) both in Java and outside Java in 1978 had a medium income distribution imbalance rate. The imbalance remained the same for four years in Java and outside Java.

c. Comparison between business sector, type and status of work

In the above analysis, we discussed the comparison of the increase in the household income per month between the business sectors. The next discussion does not only constitute the complementary to an income growth but also a must for a abetterment. We know that the average increase of the house hold income in a certain business sector does not always mean that every household has an increase proportionate to that of the other household.

If in 1978 and 1982 the mining and quarrying sectors (Table 8) underwent an increase in income by 8.9 percent and according to table 14 it was also followed by the worse income distribution imbalance rate. In 1978, the lower 40 group in this business received 15.55 percent of the total income of their business sector, but in 1982 it decreased to 13.11 percent. Based on the criteria of the World Bank, this business sector, in 1978 and 1982, had a medium income distribution imbalance rate, but the percentage of the income received decreased in 1982. Table 14 indicates that it is due to the increase in the income percentage received by 10 percent in 1978 to 38.01 percent in 1982. The Gini Ratio value of this business sector in 1978 and 1982 also indicated that the change of the income distribution imbalance rate was from 0.3932 to 0.4873.

This processing industry sector from 1978 to 1982 constituted the rapidest growing sector in income, that was 14.9 percent (vide Table 8). In the same period, Table 14 indicates that the percentage enjoyed by the lower 40 percent community increased from 12.45 percent to 15.46 percent, and the income percentage of the highest 10 percent community decreased from 35.71 percent to 32.18 percent. The Gini Ratio in 1978 of 0.4766 decreased to 0.4197 (vide Table 16). We can conclude that this business sector which during said period had a medium imbalance rate on the basis of the criteria of the World Bank, has the rapidest average income increase and is accompanied with the lowering of the income distribution imbalance rate.

The agricultural sector, had a low income increase rate between 1978 and 1982 with the average of 6.2 percent per year. The income percentage of the lower 40 percent group also increased from 10.61 percent in 1978 to 14.85 percent in 1982. It is because the income percentage received by the highest 10 percent group decreased from 39.53 percent to 34.29 percent. it seems that the income increase only affected the lower 40 percent group whereas the increase with the middle group was relatively small. The Gini Ratio thereof decreased from 0.5233 to 0.4404. If we look at the specification of this sector it is obvious that the Agricultural service sector constitutes the sector which has the highest income rate in the lower 40 percent group, namely 15.33 percent in 1978 becoming 21.70 percent in 1982. In addition, it is also recorded that the cattle breeding sector decreased from 15.51 in 1978 and 1982 period this sector had a relatively low income increase and it was accompanied with the imbalance rate which tended to get better.

Table 14 Development of the Percentage of the Income Division Pattern According to the Field of Business, Year 1978 and 1982

No.	Business Field	40 % Low		40 % Middle		20 % High			
		1978	1982	1978	1982	1978		1982	
						10 %	10 %	10 %	10 %
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Agriculture	10,61	14,85	33,21	35,83	16,64	39,53	15,03	34,29
	1.1 People's Agriculture	9,35	15,07	33,27	35,84	16,87	40,51	15,06	34,03
	1.2 Estate Agriculture	12,87	15,24	35,79	35,79	16,00	35,33	14,02	35,45
	1.3 Cattle Breeding	15,51	13,63	40,25	39,05	16,58	27,66	16,58	30,74
	1.4 Agriculture & Cattle Breeding - Service	15,33	21,70	36,26	40,76	15,84	32,57	13,89	23,65
	1.5 Forestry	13,82	18,23	39,84	39,48	17,66	28,68	16,03	26,26
	1.6 Hunting	-	-	-	-	-	-	-	-
	1.7 Fishery	15,36	16,33	36,45	38,56	14,21	33,98	15,48	29,63
2	Mining & Extraction	15,55	13,11	39,95	31,16	17,41	27,09	17,72	38,01
3	Processing Industry	12,45	15,46	35,39	36,74	16,45	35,71	15,62	32,18
4	Electricity, Gas & Drinking Water	7,88	18,80	36,68	41,62	20,53	34,91	14,64	24,94
5	Building	18,18	19,41	36.55	39,62	15,33	29,94	14,36	26,61
6	Trade	12,64	15,93	34,79	36,94	16,25	36,32	15,52	31,61
7	Transportation, Warehousing	15,55	19,56	36,55	38,52	15,62	32,28	15,00	26,92
8	Finance, Insurance	13,15	14,89	42,41	39,75	15,77	28,66	16,62	28,74
9	Public Service	13,98	16,07	38,38	40,14	17,18	30,46	16,14	27,65
10	Others	-	-	-	-	-	-	-	-

Source : Sakernas 1978 and 1982

In general for Indonesia, except the agriculture and electricity, gas and water supply in 1978, all sectors had a medium imbalance rate with the income percentage enjoyed by the lower 40 percent group of about 12 percent (agriculture) up to 18 percent (building) and the Gini Ratio was about 0.3796 (building) through 0.5233 (agriculture). In general it is found that both income distribution imbalance rate indicators complies with one and another. In 1982 based on the criteria of the World Bank all sectors had the medium and low imbalance rate. Three business sectors had the low imbalance rate the low Gini Ratio was with the transportation sector (vide Table 14, 15 and 16).

Viewed from the point of the relative income increase, in 1978 and 1982 the service sector underwent a high percentage increase, followed by the sales sector, production personnel, administration personnel and the professionals (Table 9). It was also followed by the decrease in the income distribution imbalance rate (Table 17). The income percentage received by the lower 40 percent group and the services sector increased from 13.51 percent in 1978 to 16.34 percent in 1982. The Gini Ratio of services work in 1978 was 0.4537 and in 1982 it decreased to 0.3893 (vide Table 19). The management work in the period of 1978 and 1972 increased in the income distribution imbalance rate as obvious from the decrease in the income percentage received by the lower 40 percentage of the higher 10 percent group from 20.72 percent to 22.49 percent. The consecutive Gini Ratio is 0.3258 and 0.3770. The type of agricultural work also had a relatively slow increase in the average income, but it was quite significant in the sense of the income distribution imbalance rate.

Table 15 Discrepancy Rate of the Income Distribution in Indonesia According to the Business Field Based on the World Bank's 1978 - 1982

Business Field	1978	1982
(1)	(2)	(3)
1. Agriculture		
1.1. People's Agriculture	high	fair
1.2. Estate Agriculture	high	fair
1.3. Cattle Breeding	fair	fair
1.4. Agriculture and Cattle Breeding Service	fair	fair
1.5. Forestry	fair	low
1.6. Hunting	-	-
1.7. Fishery	fair	fair
2. Mining and Extraction	fair	fair
3. Processing Industry	fair	fair
4. Electricity, Gas and Drinking Water	high	low
5. Building	low	low
6. Trade	fair	fair
7. Transportation, Warehousing	fair	low
8. Finance, Insurance	fair	fair
9. Public Service	fair	fair
10. Others	-	-

Source: Sakernas 1978 and 1982.

In 1978 the work was being farmers was marked by the high imbalance with the income percentage of 10.59 percent and Gini Ratio of 0.5240 for the lower 40 percent group. In 1982 the Gini Ratio thereof decreased to 0.4405.

Generally speaking, except agriculture in Indonesia in 1978, based on the criteria of the World Bank (vide Table 18) all types of work have medium and low income distribution imbalance rate with the Gini Ratio ranging from 0.2935 (other types of work) to 0.4802 (sales force). In 1982 there was a significant change. Based on the criteria of the World Bank the types of work having the low income distribution imbalance rate are professionals, administration personnel, and production personnel. The farmers change to medium rate in the imbalance rate, just like the other types of work.

Table 16 Gini Ratio Based on the Per Capita and Household Income Class According to the Business Field, Year 1978-1982

Business Field		1978		1982	
		Household	Per Capita	Household	Per Capita
(1)	(2)	(3)	(4)	(5)	(6)
1. Agriculture		0.5233	0.5018	0.4404	0.4519
	1.1. People's Agriculture	0.5417	0.5280	0.4362	0.4508
	1.2. Estate Agriculture	0.4696	0.4299	0.4406	0.4557
	1.3. Cattle Breeding	0.3903	0.4210	0.4308	0.4327
	1.4. Agriculture & Cattle Breeding service	0.4276	0.4061	0.2962	0.3546
	1.5. Forestry	0.4222	0.4302	0.3524	0.3865
	1.6. Hunting	-	-	-	-
	1.7. Fishery	0.4351	0.4092	0.3983	0.4063
2. Mining & Extraction		0.3932	0.3893	0.4873	0.4658
3. Processing Industry		0.4766	0.4512	0.4197	0.4214
4. electricity, Gas & Drinking Water		0.5285	0.4297	0.3371	0.3662
5. Building		0.3796	0.3851	0.3396	0.3656
6. Trade		0.4795	0.4411	0.4122	0.4033
7. Transportation, Warehousing		0.4199	0.3851	0.3409	0.3652
8. Finance, Insurance		0.4075	0.3861	0.4028	0.3981
9. Public Service		0.4299	0.4122	0.3855	0.3650
10. Others		-	-	-	-

Source: Sakernas 1978 and 1982.

Table 10 presents that the average income of house hold by the classification of work status during the period of 1978 and 1982 has an a increase. They who work as Laborers undergo an increase in income which is relatively the highest in 1982 if compared to that in 1978 whereas those working as the entrepreneurs with and without Laborers are found to have a relatively low increase, namely a half of the income of the Laborers/employees. Table 20, 21, and 22 indicate that Indonesia during the period of 1978 and 1982 underwent a change in the income distribution imbalance rate, meaning that it occurred to every status of work. The status of Entrepreneur without and with Laborers having a high imbalance rate in 1978 changes and is categorized into the medium one. Viewed from the Gini Ratio the status of laborer/employee had the Gini Ratio smaller than the other status of work in 1978. For the status of laborer/employee, the lower 40 percent group consecutively received 12.06 and 14.87 percent of income in 1978 and 1982, whereas the highest 10 percent group received 35.18 and 31.52 percent of the annual income during said period. The income percentage of the highest 10 percent group which was three times as much that of the lower 40 percent group in 1978 changed to two and a half times in 1982. The same condition also applied to the other, for instance the entrepreneurs with Laborers with the income percentage for the highest 10 percent group of four times as much the lower 40 percent group in 1978 received three times as much in 1982. Table 22 indicates that during said period it tends to be lower. In 1978 and 1982 all status of work decreased in Gini Ratio.

Table 17 Development of the Percentage of the Income Division Pattern According to the Type of Works, Year 1978 - 1982

Type of Works		40 % Low		40 % Middle		20 % High			
		1978	1982	1978	1982	1978		1982	
						10 %	10 %	10 %	10 %
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Professional, Technician	18,61	19,31	38,53	40,99	17,00	25,86	14,50	25,20
2	M a n a g e m e n t	19,50	15,17	42,63	41,46	17,14	20,72	20,88	22,49
3	Administration	17,11	18,96	38,24	29,30	18,35	26,40	14,67	27,04
4.	S a l e s	12,58	15,89	34,74	36,84	16,34	36,34	15,48	31,79
5	S e r v i c e	13,51	16,34	36,37	39,02	16,46	33,66	16,51	28,13
6	F a r m e r s	10,59	14,85	33,16	35,81	16,64	39,61	15,03	34,31
7	Production, Operator	15,29	18,18	37,77	39,25	16,90	30,04	15,18	27,39
8	O t h e r s	21,93	15,88	39,70	43,37	15,98	22,39	17,62	23,13

Source : Sakernas 1978 and 1982

Table 18 Discrepancy Rate of the Income Distribution in Indonesia According to the Type of Works Based on the World Bank's Criterion of 1978-1982

Type of Work	1978	1982
(1)	(2)	(3)
1. Professional, Technician	low	low
2. Management	low	fair
3. Administration	low	low
4. Sales	fair	fair
5. Services	fair	fair
6. Farmers	high	fair
7. Production, Operator	fair	low
8. Others	low	fair

Source: Sakernas 1978 and 1982.

Table 19 Gini Ratio based on the Per Capita and Household Income Class According to the Type of Works of 1978 - 1982

Type of Work		1978 Household	1978 Per Capita	1982 Household	1982 Per Capita
(1)	(2)	(3)	(4)	(5)	(6)
1.	Professional, Technician	0.3536	0.3413	0.3355	0.3328
2.	Management, Administrative-Procedures	9.3258	0.4149	0.3770	0.3837
3.	Administration	0.3754	0.3773	0.3498	0.3514
4.	Sales	0.4802	0.4422	0.4140	0.4064
5.	Services	0.4537	0.4140	0.3893	0.3755
6.	Agriculture	0.5240	0.5023	0.4405	0.4522
7.	Production	0.4147	0.4035	0.3622	0.3755
8.	Others	0.2935	0.2880	0.3610	0.2952

Source: Sakernas 1978 and 1982.

Table 20 Development of Percentage of the Income Division Pattern According to the Working Status, Year 1978 and 1982

Working Status		40 % Low		40 % Middle		20 % High			
						1978		1982	
		1978	1982	1978	1982	10 %	10 %	10 %	10 %
(1)	(1)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Labourers / Employees	12,06	14,87	35,27	37,08	17,49	35,18	16,53	31,52
2	Entrepreneur without Labourers	11,06	14,91	34,83	39,17	16,66	37,44	16,35	29,57
3	Entrepreneur with Labourers	9,38	12,44	33,33	33,56	16,85	40,44	15,69	38,31

Source : Sakernas 1978 and 1982

Table 21 Discrepancy Rate of the Income Distribution in Indonesia According to the Working Status Based on the World Bank's Criterion, 1978 - 1982

Working Status		1978	1982
(1)	(2)	(3)	(4)
1. Laborers/Employees		fair	fair
2. Entrepreneur without Laborers		high	high
3. Entrepreneur with Laborers		high	fair

Source: Sakernas 1978 and 1982.

Table 22 Gini Ratio Based on the Per Capita and Household Income Class According to the Working Status, 1978 - 1982

Working Status		1978		1982	
		Household	Per Capita	Household	Per Capita
(1)	(2)	(3)	(4)	(5)	(6)
1. Laborers/Employees		0.4817	0.4436	0.4265	0.4116
2. Entrepreneur without Laborers		0.5043	0.4845	0.4118	0.4179
3. Entrepreneur with		0.5403	0.5140	0.4920	0.4853

Source: Sakernas 1978 and 1982.

IV. 2. Comparison of Gini Ratio by income classification

Gini Ratio does not always depend on the income distribution imbalance rate, but also the form of the data structure being used, inter alia the income classification serving as the calculation base per household or per capita, the number and frequency unit (household or per capita). The difference in data form in use will produce the different output. Tables 13, 16, 19 and 22 illustrate the Gini Ratio if calculated based on the distribution of household by the household income and income per capita.

Tables 13 indicates, that generally the Gini Ratio calculated based on the income classification per household is higher than that based on the income per capita, except outside Java (urban and rural areas), Indonesia 8urban areas), outside Java (urban areas), Indonesia (rural areas) and outside Java (rural areas) in 1982. This Gini Ratio per capita has decreased significantly from year to year. In 1978 the Gini Ratio for Indonesia in an overall way was 0.4738, in 1982 it decreased to 0.4448 and then in 1984 it become 0.3197. The low Gini Ratio is caused by the fact that the regions outside Java has the Gini Ratio of 0.2965.

V. CONDITION OF INCOME DISTRIBUTION IN 1984

The condition of income distribution of Indonesia in 1984 is separatoly described in this chapter. The reasons are that the coverage of the household income in the National Socio-economical Survey (SUSENAS) 1984 is more complete and the questions in the questionnaire are more specified than Sakernas in chapter II on data. Due to said reasons, it is considered not to combine them in one table with the figures of SAKERNAS. We would leave it to the data users for the application thereof to the objective of their analysis.

In the following is described the condition of the household income and the midnight in 1984. It will also discuss the income distribution under the criteria of the World Bank and Gini Ratio.

V.1. Average Household Income

The average income in Indonesia according to SUSENAS 1984 has reached Rp 90,836 per month. From the comparison between the urban and rural areas, the households in the rural areas on the average are only a half of the average income of the urban areas. In 1984 the households in urban areas received Rp 148,440.- per month whereas in rural areas received Rp 74,481.-.

Viewed from the average income difference between Java and outside Java it is obvious that the households outside Java receive about 18 percent higher than those outside Java monthly. The fact is also obvious in the urban and rural areas. In the urban areas the difference is about 10 percent whereas in the rural areas it is 30 percent.

The income average difference pattern described above also has a similarity if viewed from the household income median.

The household income median in the urban areas is always higher than that in the rural areas and the household income median outside Java is always higher than that in Java. In column 3 Table 23 it is obvious that if we measure the household income, the median is always lower if compared to the average thereof. In the median measuring, the households are put in order from the lowest to the highest income or vice versa so as to facilitate to guess at which level is the income of the half of the households. This the value of this median will not be influenced by the extreme value.

V.2. Income Distribution

According to the criteria of the World Bank if 40 percent of the lower strata population received less than 12 percent of the total income, we can conclude that the income imbalance rate is very high and apprehensive. The Government should try to make it less. The imbalance rate is called median if receiving between 12 - 17 percent of income and it is low if more than 17 percent.

SUSENAS 1984 indicates that all strata of the lowest 40 percent community both in urban and rural areas, n Java and outside Java do not indicate any high imbalance. In the rural areas it is categorized low, whereas in urban areas it is medium. The urban areas outside Java even have a low imbalance rate if compared to those in Java. It should be admitted that the highest 20 percent community still receives a quite high income exceeding 40 percent and in Java it is even still above 50 percent.

The criteria of the World Bank will also be parallel the calculation is made by the Gini Ratio method. The Gini Coefficient in rural areas is lower than that in the urban areas both by household or per capita in households.

The Gini coefficient by household in urban areas in 1984 is 0.4111and in rural ares is 0.3784. Viewed from the Gini coefficient per capita in urban areas it is 0.2978 and in rural areas it is 0.2739. Nationally the Gini coefficient of the households is 0.4212. It is very influenced by the Gini coefficient in Java reaching 0.4349 whereas outside Java it is only 0.3891. The Gini coefficient figures sin Java both in urban and rural areas indicates that the imbalance rate is higher if compared to that outside Java. The criteria of the World Bank and the calculation by means of the Gini coefficient suggest the same conclusion.

Table 23 The Household Income Condition and its Distribution Year 1984

	Average Income (rupiah)	Medium Income (rupiah)	Income Percentage Distribution according to the World Bank				Gini Coefficient	
			40 % Lowest	40 % Middle	20 % Highest 10 %	10 %	House-hold	Per Capita
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
City + Rural								
Indonesia	90 836	65 439	16,24	34,94	13,26	33,56	0,4212	0,3197
J a v a	85 337	59 387	15,68	34,68	15,04	35,17	0,4349	0,3330
Outside Java	100 938	76 422	17,73	36,07	15,12	31,08	0,3891	0,2965
C i t y								
Indonesia	148 440	109 776	16,10	35,88	15,47	32,85	0,4111	0,2978
J a v a	142 704	104 288	15,80	35,80	15,45	32,95	0,4179	0,3056
Outside Java	162 711	122 849	17,35	36,14	14,85	31,66	0,3906	0,2787
R u r a l								
Indonesia	74 481	58 171	18,06	36,79	14,76	30,39	0,3784	0,2739
J a v a	66 846	51 676	18,22	36,33	14,56	30,89	0,3802	0,2756
Outside Java	87 401	70 261	19,15	37,78	14,34	28,73	0,3560	0,2628

Source : Susenas 1984

VI. CONCLUSION

Based on the analysis in the previous chapters we can conclude as follows:

1. The average monthly household income in the urban areas is about twice as much if compared to that in rural areas per year in Indonesia, according to the data from SAKERNAS 1978 and 1982. If viewed from the average income increase per year in Indonesia during the period of 1978 to 1982 it is found that the urban area increases more rapidly than the rural areas. The income distribution pattern according to the criteria of the World Bank indicates that the rural areas changed from the high imbalance rate in 1978 to medium in 1982. In urban areas the imbalance rate of income is still considered medium though in 1982 the income percentage received by the lower 40 percent nearly reached 17 percent. The Gini Ratio coefficient in the urban areas is lower than that in the rural areas, meaning that the income distribution in urban areas is more disseminated than that in the rural areas.
2. The average household income increase occurs in Java and outside Java. Every year the average income outside Java is higher than that in Java. The average household increase per year during the period 1978 - 1982 in Java is higher than that outside Java. Based on the criteria of the World Bank Java has undergone a betterment in the income distribution from the high to medium imbalance rate. Outside Java, during said period, there was not any change yet; it remained the same. The Gini coefficient between both regions has a contradictory pattern;

the Gini Ratio in Java in 1978 was higher than that outside Java whereas in 1982 the contrary occurred.

3. The average household income in the urban areas in Java is always higher than that in the rural areas, that is twice as much. Though the income growth rate in the urban areas is slower than that in the rural areas, that was respectively 11.2 percent and 15.0 percent annually in the 1978 - 1982 period. Based on the criteria of the World Bank the urban areas in java had a betterment from the high to medium imbalance rate during said period. The Gini Ratio in the rural areas in Java was lower in 1978 and it was the other way around in 1982.

4. The processing industry sector in 1982 on the average had the highest household income increase from 1978 if compared among the existing business sectors. Based on the criteria of the World Bank the households included into this business sector do not change. They remain having the medium imbalance rate. Whereas the Gini Ratio decreases.

It was due to the decrease in the income percentage of the high 10 percent group from 16.45 percent in 1978 to 15.62 percent in 1982. The average household income in the agricultural sector is still the lowest if compared to those available though in 1982 it increased if compared to 1978. Based on the criteria of the World Bank in 1982 the agricultural sector in an overall way changed to medium in imbalance rate if compared to 1978 when it was high. It was followed by the decrease in Gini Ratio and income percentage received by the high 10 percent group.

5. During the period of 1978 - 1982 among the existing work types classifications, the households included into the service type underwent the highest average household income increase. Though the imbalance rate based on the criteria of the World Bank did not change, that was remaining at the medium imbalance rate group, the Gini Ratio decreased from 0.4537 to 0.3893 in 1982. In the contrary, the households with the types of management personnel had the lowest average income increase. Based on the criteria of the World Bank and Gini Ratio calculation, it was found that the imbalance rate was getting worse. It was indicated by the shift of the imbalance rate from low in 1978 to medium in 1982, and the Gini Ratio thereof changing from 0.3258 to 0.3770.

6. The households with the status of work of Laborer/employees during the period of 1978 - 1982 had the highest average annual increase among the three work status classifications.

It was followed by the decrease in the Gini Ratio and the income percentage received by the highest 10 percent group. Based on the criteria of the World Bank in 1982 it was categorized into the medium imbalance rate. The average lowest annual increase rate was with the household with the work status of entrepreneur with Laborers. The income imbalance rate initially categorized high according to the criteria of the World Bank has become better, that is changed into the medium imbalance rate. In line therewith, the Gini Ratio also decreased, likewise the income percentage received by the high 10 percent group. In 1982 the average monthly household income was not very much different from the condition in 1978, consecutively Rp 49,127 and Rp 31,624 for the status of laborer, employee, entrepreneur without Laborers and entrepreneur with Laborers.

7. The average household income according to SUSENAS 1984 indicates the same pattern as that according to SAKERNAS. The average household income in the urban areas is higher about twice as much that in rural areas. The same thing happens to the urban and rural areas in and outside Java. In 1984, the lowest 40 percent community in Indonesia (urban and rural areas) received 16.24 percent of the total household income. In the urban areas of Indonesia the lowest 40 percent community received 16.10 percent of the income whereas the rural areas received 18.06 percent. It means that the income imbalance rate in the rural areas is considered low whereas that in the urban areas is medium as it was in 1978 and 1982. The Gini coefficient in the rural areas of Indonesia is lower than that in the urban areas.

8. The comparison of the average household income between in and outside Java indicates that in 1984 the households outside Java had a higher average income than in Java. The same thing was also obvious in the urban and rural areas in and outside Java. The income distribution according to the criteria of the World Bank also indicates that the income percentage received by the lower 40 percent group outside Java is always higher in the rural areas than in the urban areas.

The Gini coefficient also indicates that the income imbalance rate outside Java is always lower than that in Java.