

Social safety nets and economic transition in Indonesia: Paradox of social services?

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Abstract

This paper elaborates about transformation value of social services from the way to improve equality to the method to expand efficiency. It analyses the role of social safety nets (SSNs) within the context of political-economic reform, method of the distribution, and its implications. Under the advice of World Bank and International Monetary Fund, the Indonesian government reforms its political-economic system through carrying out structural adjustment programs (SAP). Various experiences show that SAP augments economic austerity and inequality cause people resist to the reform. To diminish the resistance, the government provides SSNs. Although the provision of SSNs is designed to support the SAP, to get legitimacy for the reform, the Indonesian government declares that the program aims to alleviate poverty. Unfortunately, the Indonesian government distributes SSNs without utilising accurate references causing inefficiency and conflicts lead to the detriment of social capital.

Key words: equality, structural adjustment program, social safety nets, poverty, social capital

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Introduction

The provision of social safety nets (SSNs) for poor people to respond economic shocks during transition period in Indonesia witnesses a transformation of social services triggering serious debate. The debate is centred around on method of the SSNs programs and on the ideology behind the initiation of the programs. Many studies (CPPS GMU, 2005; CPPS GMU, 2007; CPPS GMU, 2006) find out that the provision of SSNs is not efficient and tends to generate socio-cultural dilemma. Ideally, the programs should empower poor people (Sumodiningrat, 1999). During the transition period, population living in poor condition increases dramatically. From 1993-1996 the poverty rate declined from 25.32 percent to 17.44 percent. Entering the crisis in 1999, however, the rate climbed more than double: 27.13 percent (Strauss, Beegle, & Dwiyanto, 2004: 22). However, many cases show that the programs do not contribute significant effects. More fundamental than the methodological aspect, the SSNs program contains with political motive i.e. to support the political-economic reform. Through showing the commitment of government to endow vulnerable people with social assistances, SSNs can improve popular support to the reform (Graham, 1994)

The phenomenon of democratization manifested by political-economic reform leads to market economy in Indonesia is a global trend. The central planned administration in the ex-east European countries, Latin America, and China collapsed and reformed its political system more than two decades before it took place in Indonesia. The success story of the reform however, does not arise to all of those countries. China is the one which fruitfully carries out the reform (Gregory & Stuart, 1999: 2; McMillan & Noughton, 1992). The rest of the countries remain coping with thorny transition period (Gregory and Stuart, 1999). Like ex-east European countries, Indonesia is not as flourishing as China. Compare with those countries, Indonesia has peerless chaotic characteristics. The pipeline coming to democratic political-economic system is loaded with anarchies (Hanneman & Nordholt, 2004). When the centralised regime stepped down, there were serious political conflicts, protests, and separatist movements against the government. It happened in the same time as the economic crisis struck in Indonesia worsening the situation.

In this problematic circumstance, World Bank and International Monetary Fund (IMF) came to assist Indonesia releasing from the problems. IMF endeavours to increase Indonesian currency exchange rate while World Bank assist to restructure political-economic system leads to market economy. To accomplish agendas, World Bank internalises the concept of structural adjustment program (SAP) as an instrument to reform the political system. SAP which is an essential condition to get loan from those two Breton Woods institutions, encompassing various aspects of structural reforms, such as deregulation, privatization, and elimination to import tariff barrier (Friedman, 1992). Accompanying the execution of SAP, under the advice of World Bank, the Indonesia government provides SSNs immensely. SSNs is one of the four essential facets in political-economic reform. The other three of them are: price liberalization, privatization, and political structural reform (McMillan & Noughton, 1992; Gregory & Stuart, 1999).

This paper intends to elaborate the value of SSNs, the method of the distribution, and its consequences. Theoretically, SSNs ought to stand for improving equality but many cases shows that SSNs is a means to enhance efficiency through transferring political economic system to market economy. The elaboration then will go to some methodological aspects. This part will analyse the problem of distribution system and socio-economic dilemma caused by the system.

Social safety nets and equality: Ideological debate

The relationship between transition to market economy with the need for the distribution of SSNs has been studied in various literatures (Graham, 1994; Gregory & Stuart, 1999). The concept of SSNs refers to interventions intends to improve the well being of poor or vulnerable people

during the economic transition period (Graham, 1994). The idea of using SSNs to support SAP as a manifestation of political-economic reform with SSNs is based on the argument that the reform involves various interest groups. The economic shocks during the transition period put the groups on a risk situation. The reforms may cause formerly non-poor group, such as displaced urban workers, down to poor situation. This group tends to be more vocal and organised. In that case, the non-existence of SSNs generates opposition to further economic changes (Graham, 1994).

The concept of economic transition, in fact, attracts critical criticism. It refers to transformation from one political-economic system to another one (Gregory & Stuart, 1999; Hanneman & Nordholt, 2004). From the right wing perspective, the transformation engenders equal position between state, private, and civil society. The left wing perspective, oppositely, discerns the reform brings the system to the domination of market as one of the interest groups. The debate causes a serious consequence to the position of social services as a broader form of SSNs. The left wing perspective perceives that state provided social services are hallmark of socialist economies (Gregory and Stuart, 1999). The provision of social services in a socialist economy aims to augment equality (Robson, 1977). In this situation, SSNs is used as an instrument to redistribute resources. On the other hand, in market economy, the provision of the services intends to amplify efficiency. In such country, privatization of social security is not a new phenomenon. Since the privatised insurance does not afford subsidy, this model boosts inequality on the access to the services lead to inequality on the distribution of social services (Martinuzen, 1999).

The transformation to market economy also manifested in the collapse of welfare state (see Hanneman & Nordholt, 2004) and amends it to the concept of welfare pluralism. To a certain extent, welfare state denotes a phase of the expansion of socialism. Social services, accordingly, refer to systematic program to redistribute well being which is initiated by socialism (Midgley, 1997) to reduce inequality (Robson, 1977). The essential critic to welfare state is that this system is, politically, not democratic. The central planned provision of social services put state in a central power with lack sharing of authority. Consequently, this system requires enormous public expenditures, so economically, it is not efficient. On the contrary, welfare pluralism symbolises a system which is constructed from plural actors consisted of state, private, and civil society (see Spicker, 1995). The system promotes democratization of social services. The involvement of private sector diminishes the public expenditure generating efficiency. The problem here is how the state governs the role of other actors. The more the state accommodates to the role of private sector, the bigger the risk on the enhancement of inequality. Therefore, welfare pluralism is a system which is vulnerable with the inequality of the distribution of social services.

The SSNs program intended to support SAP, which represents neo-liberal doctrine (Friedman, 1992), therefore, is a mechanism to endorse the augmentation of efficiency. This phenomenon is a paradox. Social services which originally were conceptualised to reduce inequality, over the last three decades have been transformed to an instrument to enlarge efficiency widening inequality. Besides the privatization of social insurance, this is a manifestation of using socialism idea to develop capitalism (Sumarto, 2005).

Social safety nets and transition period in Indonesia

The massive provision of SSNs in Indonesia plays important role in the process of political-economic reform. It determines the approach of the reform. The approach is one of the fundamental aspects in the restructuring. The other one is initial condition (Gregory & Stuart, 1999: 413-416). Initial condition refers to a political economic situation when the reform is initiated (Gregory & Stuart, 1999, 415-417) while approach denotes the speed of the reform (McMillan & Noughton, 1992: 140-141; Gregory & Stuart, 1999, 417-418). It is divided into two categories namely, big bang and gradual approaches. The first method indicates reform on the

four components simultaneously in a short period. Oppositely, the second approach has no structured reform on the components.

Considering what happen in Indonesia, the reforms can be categorised in big bang approach. The country was stricken by economic crisis in August 1997, the centralised administration step down in May 1998, the decentralization act was initiated in 1999, and the reforms were held in 2001. The reform covers numerous alterations, such as privatization in several sector, lessen government subsidies, and various kinds of political structural reorganisations. It implies that the Indonesian government carries out huge elements of reforms in a short period.

Compare to gradual reform, the big bang approach may generate the higher economic shocks. The higher the shocks, the larger the number of people cannot adjust them selves to the economic changes causing the need for social assistance getting higher. Responding the situation, Indonesian government allocated national budget relatively immense namely, Rp. 17,990.00 billion (Sumodiningrat, 1999) to distribute SSNs. These programs were started in 1998 and most of them were continued up until recent time. The SSNs programs cover several types of social assistances i.e. food security, labour intensive, small and medium enterprises, and social protection, particularly for education and health services (Sumodiningrat, 1999; Strauss, Beegle, & Dwiyanto, 2004). Some of them are provided specifically in urban areas but there has been no one in rural vicinities. It aims to diminish the opposition of the displaced urban workers. During the transition period there have been numerous protests organised the workers which may endanger the reform.

Social safety nets and poverty alleviation

The Indonesian government has never stated that the provision of SSNs is intended to support SAP. Politically, it is too precarious to disseminate the link between SSNs and SAP. Instead, it asserts that SSNs is a social assistance expecting to alleviate poverty. In fact, the beneficiary of the program is poor people but it is not intended to diminish poverty. It is difficult to abolish poverty with social assistance in economic transition period. Various researchers verify that in normal economic situation, social assistance cannot alleviate poverty effectively. Charles Murray (Dinito & Dye, 1987; Le Grand, Propper, & Robinson, 1992) and Irving Kristol, Stephen Hatch (Midgley, 1997) show the inefficiency of social security programs to mitigate poverty. Le Grand, Propper, and Robinson (1992), in addition, argue that social security generates culture of dependency. Therefore, it would be harder to do so in the transition period.

Consequently, the debate about SSNs has never criticised the program in the relations with the political-economic reform. It goes to the contribution of SSNs to diminish poverty. Substantially, it comes to inappropriate domain. In many cases SAP generates social problems. The economic austerity and inequality increase caused by SAP (Midgley, 1997). The report of United Nations states that SAP decrease the earning of informal sector 40 percents and modern sector between 10 percent to 17 percent (Midgley, 1997). The centre of controversies, therefore, moves from the reform as the factor causing the poverty to the poverty itself. Politically, it is beneficial to the government. It assists to moderate the resistance to the political economic reform (see Graham, 1994). The government builds various symbols to demonstrate that the program aim to abolish poverty. Several programs are marked with the label of poverty alleviation.

Although the government has successfully moved the focus of the debate to poverty alleviation, it does not embody that the program effectively distribute SSNs. The program which is means-tested social assistance is distributed universally, without considering the level of household income. It causes the poor people get fewer of the assistance than it ought to be. The case of subsidised rice for instance, at the first phase of the program, poor household may get 20 kg. Since people insist the government to distribute universally, the government reduces the quota

from 20 to 10-15 kg. Many cases, however, even show that people get less than 10 kg (CPPS GMU, 2005). It does not provide significant contribution to poor people. Those multifaceted problems stem from complicated aspects covering a misleading conception on SSNs, unclear criteria of the target, vague indicator of poverty, and invalid data on poverty

The impacts of social safety nets to social capital

From other standpoint, the problems elaborated above, arises from the situation in which there is no stigma on the program (CPPS GMU, 2005). Theoretically, in the means tested social assistance, there should be stigma on the program (see Pratt, 1997; Plant, Lesser, & Gooby, 1980). Some one is putted a label on poor if the one gets the assistance. In many decades, Indonesian people believed the label diminished social status. They also realise that taking the social opportunity from the vulnerable deserved people is not an appropriate social attitude. Therefore, people ought to be reluctant to obtain the assistance. On the contrary, people are eager to get the assistance. This is such a collective fallacious attitude. People do not feel guilty to take other people's social opportunities. Even it has been done in systematic method through mobilising others to induce government to distribute the assistance universally.

Consequently, people no matter what their economic status, want to get the assistance universally. In the case of subsidised rice, for instance, people argue that as constituents, they have a similar right to gain the assistance. If the assistances are distributed selectively, the obligation to work voluntarily to repair any public facilities and the obligation to pay collective voluntarily payment should go simply to the ones who receive the assistance (CPPS GMU, 2005). In many cases, this situation triggers conflict between people and local government as well as conflict among people. Either mutual collective work or collective voluntarily payment is such local resources which are believed as a social asset tying social cohesion.

This fact implies that the programs hamper social capital. The impediment of social capital is not favour to empowerment. Many experts, such as Serageldin and Grootaert (2000: 47), Helliwell and Putnam (2000), and Uphoff (2000) argue that the social capital may promote effectiveness and sustainability in alleviating poverty. To a certain extent, social capital empowers people enabling them to improve access to a better living standard. In contrast to the SSNs program, traditional social security system is able to promote social capital (Lont, 2003). Financial self-help as a manifestation of the system promotes social capital facilitates people to cope with difficulty and insufficiency in complicated economic situation.

Equivocal role of social services: A rough conclusion

The provision of SSNs in Indonesia reveals equivocal roles of social assistance. On one side, SSNs are addressed to assist poor people to fiddle with fundamental economic problem. Therefore, this is such a moral obligation for state to provide the assistance (see Plant, Lesser, & Gooby, 1980). On the other side, the SSNs programs are intended to support the political-economic reform leads to market economy. The reform jeopardises the political-economic position of interest groups causing resistance to the reform. The provision of SSNs as a manifestation of the steadfastness of government to its constituents can diminish the resistance. Peculiarly, the government declares that the intension of SSNs to alleviate poverty. The government has never proclaimed about the role of SSNs in espousing the reform. The reason behind the propaganda is lessening the controversies on the reform. At the same time it wants to augment the legitimacy of the Indonesian government and World Bank to carry out the reform.

Those facts illustrate that SSNs as a part of social services has been transformed into capitalist domain. Historically the social services program aims to improve equality but in the context of transition economy, it tends to expand efficiency. The privatization of social insurance which

initiated decades ago, engenders adverse selection lowering the access of vulnerable people to the social insurance. Adverse selection does not provide any chance for poor people and vulnerable groups to get the insurance. Even though SSNs is provided for poor people but it has the same value as the privatised social insurance. SSNs which are stem from the idea to improve equality are used as an instrument to promote efficiency.

This phenomenon ensures about the defeat of equality in the trade off between equality and efficiency (see Okun, 1975; Le Grand, Propper, & Robinson. 1992; Stiglitz, 2000). This situation is unfair for poor people. As the role of private sector in providing social services is getting higher, the access of poor people to get social services will be getting lower. Normatively, every one has the same right to get social services. In this situation, it is a moral obligation to put back social services on its philosophical value as a way to improve equality. Without the moral movement, it would be difficult to accomplish the social justice as elaborated by Rawls and Nozick (Plant, Lesser, & Gooby, 1980).

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