Labour market dimensions of poverty in Indonesia have not so far been the subject of detailed analysis, although sufficient reliable data is available to provide the basis for such research. This topic is of particular interest now, partly because jobs have grown very slowly and unemployment has risen in Indonesia since the 1997-98 financial crisis. The question arises as to whether the lack of jobs is the major challenge for poverty alleviation programs. Alternatively, the main issue may not be just overcoming unemployment through job creation programs, or through such programs alone. Rather it could relate to ensuring that people have access to more productive and stable jobs, either through improved human capital (training, education and health interventions), providing better information on job opportunities, or by encouraging the ‘right’ kinds of investment that enable workers to receive a decent wage. Research in Latin America suggests, for example, that poverty is partly associated with labour market failure: the poor experience high rates of unemployment and under-employment because of low levels of mobility across regions and sectors, rather than because there are not enough jobs to go around.

A joint study on the relationship between the labour market characteristics and poverty among working age people in Indonesia was undertaken by Armida Alisjahbana of Padjadjaran University in Bandung and Chris Manning of the Research School of Pacific and Asian Studies in Canberra. Chris Manning presented the findings of the study at a recent ANU seminar. The study mainly used data from Indonesia’s National Social–Economic Survey, SUSENAS, for 2002.

The presentation focused on the findings of the study in three areas. The first related to participation of the poor in work. Low participation in the labour force—including both unemployment and underemployment—was found to be important for poverty status. Multivariate analysis using a logit model suggested that greater participation in work contributed to lower poverty among household heads, but this was not the case among their spouses. To explain the latter finding, it was suggested that spouses in poor households (who were mainly female) were more likely to be forced into less preferred jobs in order to make ends meet. Among the participation variables, the intensity of work (proxied by underemployment) rather than participation rates or unemployment, appeared to be more directly related to poverty. While unemployment is the main focus of government attention, many poorer people cannot afford to be unemployed. Their main challenge is to find enough work to make ends meet. Among the participation variables, the intensity of work (proxied by underemployment) rather than participation rates or unemployment, appeared to be more directly related to poverty. While unemployment is the main focus of government attention, many poorer people cannot afford to be unemployed. Their main challenge is to find enough work to make ends meet in low paying, informal and agricultural jobs.

It was also argued that the low participation in work was less significant than the kind of jobs workers undertook, in its affect on poverty. Individuals who worked in agriculture and were attached to the informal sector were especially likely to be poor. Dependence on the agricultural sector has long been associated with high levels of poverty in Indonesia, and the study showed that...
movement out of agriculture was positively correlated with poverty decline in the pre-crisis period. Although not examined in the multivariate analysis, low average earnings (and presumably productivity) appeared to be the major factor associated with high levels of poverty in agriculture.

Second, the study examined urban-rural differences in the labour market characteristics of poor households. The authors found that employment in certain non-agricultural sectors, such as transport and construction, was more heavily concentrated in agriculture among rural-urban migrants in the cities. It is not surprising, therefore, that the poor were much more likely to be associated with a higher incidence of poverty in urban rather than rural areas. In towns and cities, many poor workers were engaged in the informal sector, either in marginal, self-employed work or as casual labourers. The authors suggested that many of these poor, informal sector workers were most likely to be rural-urban migrants. While they were poor, many still experienced higher absolute incomes in towns and cities than in their areas of origin.

In rural areas, by contrast, the poor were not over-represented in most non-agricultural sectors, and were significantly under-represented in some, such as construction, trade and transport. Non-farm jobs are often an initial step towards improving household incomes among agricultural workers, whereas the same jobs are frequently crowded with rural-urban migrants in the cities. It is not surprising, therefore, that the poor were much more heavily concentrated in agriculture among all status groups in rural areas.

Third, the study examined poverty status and labour market characteristics among population sub-groups. Poverty was especially likely to be associated with under-employment among younger household members and females than among prime age workers. Young people in poor households, in particular, demonstrated a very low level of participation in non-agricultural work (outside construction) and a high incidence of unemployment, especially in urban areas. Differences in the earnings of employees in poor and non-poor households, on the other hand, were especially large for females.

The presentation also touched briefly on changes in the labour market attributes of the poor over time, and also regional dimensions of the labour market in relation to poverty status. Interestingly, the study did not detect any major change in the structure of poverty in relation to labour market participation over the period spanning the economic crisis and recovery, 1996–2002. The poor tended to be concentrated in agriculture and the informal sector in both periods. In the immediate pre-crisis period (the decade through to 1996) a substantial number of people moved out of agriculture into formal sector jobs. At the same time, poverty declined steeply. However, slow growth in formal sector jobs seems to have inhibited such a development in recent years.

However, the study found some important inter-regional differences, especially between densely populated and more industrialised Java-Bali, and all the major Outer Island groups. Unemployment, underemployment and participation in the informal sector were all higher among the poor compared with the non-poor in Java-Bali, relative to other regions. The authors suggested this was partly related to the more differentiated labour market in Java-Bali, and the heavy concentration of poorer people in agriculture in the Outer Islands.

In conclusion, the authors suggested that from a labour market perspective, economic policies that facilitate employment in ‘better’ jobs—those with higher wages and more stable earnings and employment—are likely to be the most effective approach to alleviating poverty in countries like Indonesia. Access to better jobs should be focus of both supply-side investments in human and physical capital, as well as policies that influence labour demand, such as trade and investment policies. It was also concluded that the close association between employment in the informal sector and poverty should be a matter of special concern for policy makers, given that the number of jobs in the informal sector increased much more rapidly than those in the formal sector in the post-crisis period.

* Chris Manning is Head of the Indonesia Project, Economics Division, Research School of Pacific and Asian Studies, The Australian National University.