COMPARISON BETWEEN INDONESIA AND ASUTRALIA IN ADDRESSING POVERTY AND INCOME INEQUALITY DURING INDONESIA POST REFORMATION ERA 1998-2018

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Abstrak

This article discusses the comparison of how developing and developed countries deal with poverty and income inequality. Developing country is represented by Indonesia and Australia from another side. Using systematic review as a methodology, this articles then using secondary data both qualitative and quantitative to describe and compare how both countries tackle poverty and income inequality at the same time. This article concludes that there are differences and similarities can be seen as a key factor to boost the performance of poverty alleviation at the same time. This article also argues that there are several features can be adopted to transform Indonesia's social policy.
Keywords: social policy; poverty; income inequality; Indonesia; Australia

Introduction

Poverty and income inequality are seen as the obstacle to country development. The development of welfare state is related with the government's intention to address poverty and inequality (Saunders 2010, p. 2). Indonesia and Australia are two countries which face these problems and have developed the system for reducing poverty and income inequality. However, as Indonesia is developing country and Australia is developed country, the design features of the welfare state to achieve objective might be different.

Methods

Against this background, this article will discuss how Indonesia and Australia design their welfare state features to deal with poverty and income inequality. Comparing Indonesia and Australia will describe how welfare state features in developing and developed countries are implemented to address poverty and income inequality. The paper also discusses the effect of its system in addressing poverty and income inequality. This paper uses several data from the OECD and the World Bank to see social spending on both countries and how effective and efficient to address these problems. Besides that, the paper analyses and compares the initial factors in discussion welfare state in addressing poverty and income inequality, which are: a) concept and measurement; b) the role of tax, distribution, and targeting; c) institutions and d) demographic

Results

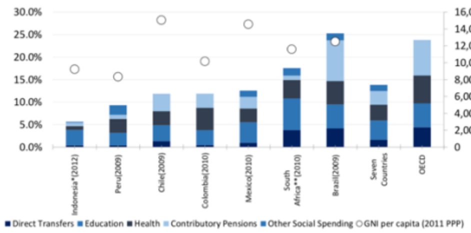
Indonesia Welfare State

The Asian Economic Crisis (AEC) hit in 1997-1998 has impacted to social policy architecture in Indonesia to address poverty and income inequality. Since this period, Indonesia has been struggling to reduce absolute poverty and income inequality adequately. Data shows that Indonesia had 19 percent absolute poverty and 0.30 Gini coefficient in 2000 and 11,2 percent absolute poverty and 0.41 Gini coefficient in 2015 (OECD 2016, p. 7). As emerging economies, Indonesia spends around 5 percent of share its GDP and can be seen far behind the average of

OECD countries and the lowest among other six other emerging countries (fig. 1).

Figure 1. Composition of social spending

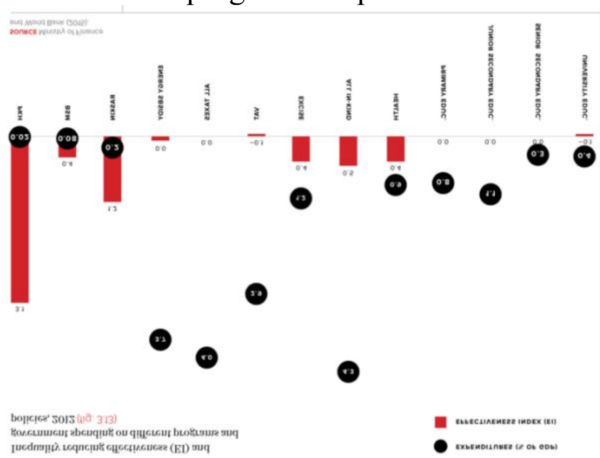
(ranked by social spending/GDP)



Source: Lustig 2015, p. 9

Indonesia has implemented cash transfer, conditional cash transfer and in-kind program (rice for the poor or called Beras Sejahtera) to support the very poor household in transforming their social assistance to help the poorest where the role of government is broader since the trauma of AEC (Kwon & Kim 2015, pp. 428-430). These efforts also followed by transformation social insurance into universal perspective where Indonesia enacted the Social Security Law in 2004 which is a significant transformation in how Indonesia provide social security. This law then is followed by the universal health care since 2011 and universal social insurance for the worker to accommodate all worker both formal and informal (World Bank 2017). In this context, several social protection programs were chosen to address absolute poverty and combined with the redistribution to respond poverty and income inequality, especially for long-term purposes.

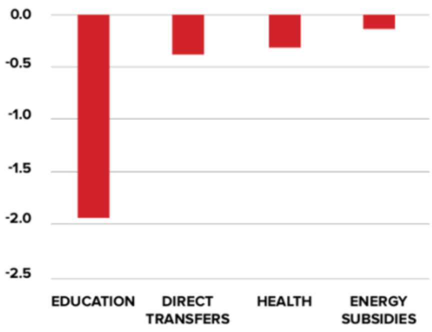
Figure 2. Inequality reducing effectiveness and government spending on different program and policies



Source: Ministry of Finance and World Bank cited in World Bank 2016 p. 119

Looking for the effectiveness, from the figure 2 above, we can see that social security in the share of GDP through several poverty alleviation programs and its effectiveness. There are several concerns in the relation between how much spending and its effectiveness. In this case, we can see that the highest expenditures give the lowest effectiveness. All in kind, energy subsidy, and all taxes have little impact in reducing inequality in Indonesia. In contrast, the smallest expenditures which are PKH (Conditional Cash Transfer), BSM (Cash Transfer for Poor Student) and Raskin (in-kind rice for poor) contribute significantly to reducing inequality. In more detail, if we compare the cash transfer and energy subsidies in how much reduction in Gini coefficient, then the result shows that direct transfer more effective than energy subsidies (see figure 3).

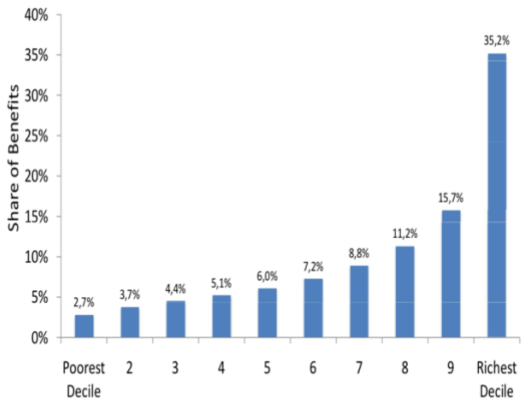
Figure 3 Reduction in Gini coefficient between market and final income



Source: World Bank 2015, p. 25

The energy subsidies can be seen as the problematic issue for Indonesia's government. In one side, the government argues that this element is essential to help poor people to maintain purchasing power. But, on another side, many experts argue that this element cannot boost economic performance in Indonesia significantly. From the effectiveness in reducing inequality, we can see that energy subsidies have less contribution compare the cash transfer. The main reason of this situation is the targeting of energy subsidies tend to be consumed by the middle-high income group (see figure 4). Therefore, the energy subsidies are not explicitly targeted at the poor or the 10 percent lowest group.

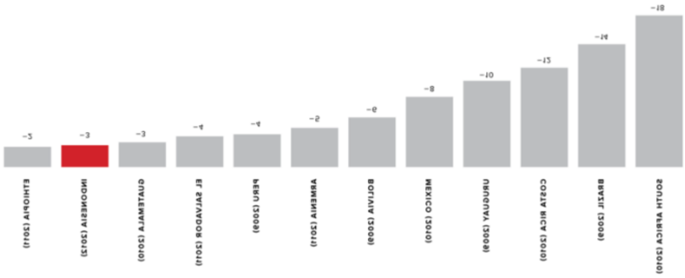
Figure 4. Incidence of fuel and electricity subsidies



Source: Susenas 2012 cited in MOFI 2014

Besides that, the structure of tax system in Indonesia does not accommodate the transfer and redistribution. Most of the social protection is non-contribution and rely on the government budget. The result of this situation can be seen in figure 5 where fiscal policy has a little impact in the reduction in Gini coefficient.

Figure 5. Reduction in the Gini coefficient through fiscal policy



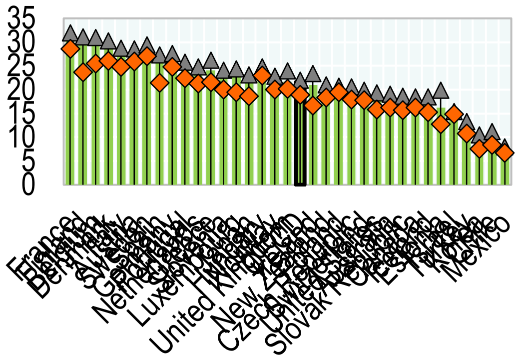
Source: World Bank 2016, p. 118

However, from data above, the social protection in Indonesia, especially in cash transfer perform effectively in reducing income inequality. With little share compare with other allocations which are used to reduce inequality, cash transfer in Indonesia is efficient since the share is only 0.02 percent, but it has the most significant impact.

Australia Welfare State

As the developed country, Australia can be seen as one of the fastest growing advance economies in the world (Whiteford 2014). Even so, Australia is struggling to reduce income inequality and poverty. Different with Indonesia, Australian is facing more relative poverty rather than absolute poverty which is common in developed countries. As part of OECD countries, Australia has focused on these issues for the long time ago. With the strong economic development, Australia spends far more than Indonesia in social allocations with almost 20 percent of its GDP (see figure 6).

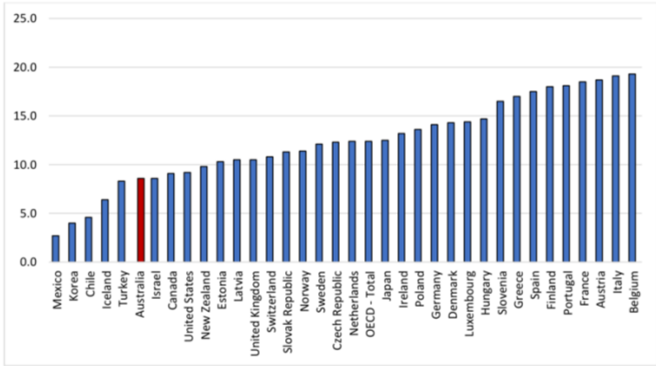
Figure 6. OECD Public Social Expenditure 2014



Source: OECD 2014 cited in Whiteford 2018 slide 7

Australia welfare state has implemented the social security system to address social problems. The main purpose of the social security system is 'to provide individuals with minimum adequate standard living' (ALRC 2018). This system emphasizes redistribution of income support payment and payment to families (ibid). It also supports age and other pensions, the family tax benefit and supplementary payment where the government depends on the means testing of income and assets to assess the beneficiaries. Moreover, this social security is related to the tax system. Australia's tax-transfer system allocates the biggest component of government spending for social security and welfare. Data from the Department of Treasury in 2017-2018 shows that 35.3 percent of the total budget is spent on this component (Whiteford 2017, p. 2). There are three central instruments impact social expenditure, namely: direct taxes; indirect taxes on goods and services and tax expenditures (Whiteford 2010, p. 530). Figure 7 shows that Australia spending on cash benefit where Australia is the sixth lowest country with around 8 percent of GDP. Due to Australia implements the non-contribution in its social protection to provide income maintenance, this spending is seen low compare other developed countries in OECD (Whiteford 2010; Whiteford 2017).

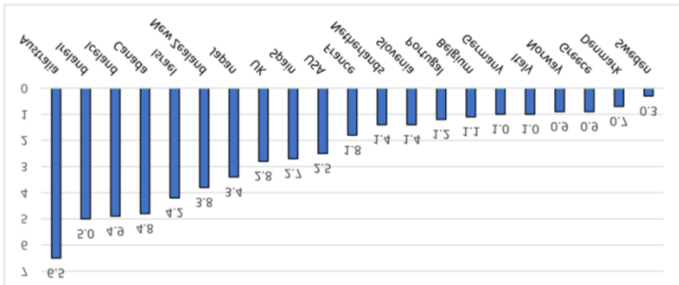
Figure 7. Spending on cash benefits in OECD countries in 2014 or nearest year (% GDP)



Source: OECD social expenditure database (cited in Whiteford 2017, p. 21)

However, if Australia is compared to spending on income-tested benefits with OECD countries, then the result place Australia as the highest (see figure 8). This achievement also followed with the fact that Australia's social security system is the most targeted to the poorest 20 percent among OECD countries (Whiteford 2016, slide 12).

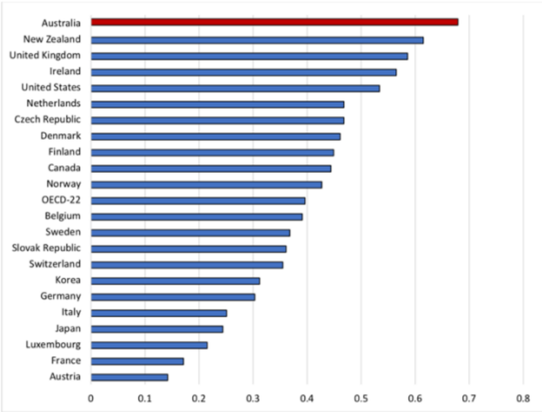
Figure 8. Public spending on income-tested benefits % of GDP in OECD Countries 2012



Source: OECD social expenditure database (cited in Whiteford 2017, p. 29)

From this configuration, Australia relies on the cash benefits to help maintain income for the targeted group. From this configuration, Whiteford (2010) argues that Australia is sixth most effective countries among OECD countries in reducing inequality. Besides that, Australia also shows that its system as the most efficient in reducing income inequality (see figure 9).

Figure. 9 Efficiency of social security transfers in reducing income inequality in OECD countries 2015



Source: Whiteford (2010) cited in Whiteford 2017 p. 30

Discussion

In this section will discuss several issues related to the data described above. It will explain what factors and how it affects the data, which are a) concept and measurement; b) the role of tax, distribution, and targeting; c) institutions and d) demographic. Besides that, this section also discusses and compares these four factors in both countries to get the lesson learned in the discussion of welfare state features. This comparison is essential to provide the understanding of how different countries develop their welfare state regime in addressing poverty and inequality (Saunders 2010, p. 6).

Concept and measurement

Discussion related poverty and income inequality will bring us to discuss the concept of targeting and measurement. Both countries have the similar problem in poverty and income inequality but might be in different characteristic. In poverty, for example, there are two concepts in as either absolute term or relative term (Saunders and Bradbury 2006). It is a fundamental stage since we define the concept of poverty and its determinant to build an appropriate measurement.

The role of tax, redistribution, and targeting

The function of the tax system and redistribution is the crucial feature in the welfare state. In most welfare state countries, this feature is common as the effective tool to distribute income either in 'Robin Hood' approach or in 'Piggy Bank' approach (Barr 1992). Most of the developed countries create the tax-system as the tools to sustain the equality and prevent low-income group went into poverty (Adema & Whiteford 2010, p. 8). Comparing social spending, Australia is higher than Indonesia. Like many developed countries, Australia focus on the income maintenance and means-tested where Australia become the most targeted country among OECD countries. In this context, Australia is the example of how country using taxation to address poverty and income inequality.
From the description in the previous section, Indonesia is seen running the similar pattern especially in implementing cash transfer program (PKH and BSM). These programs are non-contribution and depend on means-tested as well as Australia do for a long time. The result also shows that cash transfer in Indonesia is effective to reduce inequality. However, the amount is low compared with other social spending. Consolidation and strengthening of tax-system and redistribution are essential for Indonesia. Bastagli et al. (2012) emphasize that CCT has promised the distributive power in developing economies (p. 18). It can be an entry point for Indonesia to expand this program. Since this program can benefit Indonesia in short and long term, Indonesia should focus on improving conditional cash transfer programs. In one side, the conditional as an investment also essential to invest poor household in the long term. In another hand, it also provides a short-term solution to address income inequality which also important to be addressed by Indonesia (World Bank 2015, p. 26).

Means-tested as the entry stage for beneficiaries is vital to ensure beneficiaries are accurate targeted. How Australia conduct this means-tested can be the lesson learned for Indonesia to increase the quality of targeting in Indonesia.

Institution

Discussion institution, what Esping-Andersen (1990) classifies welfare state into three welfare regimes. In his work, Australia is classified as the liberal model where giving the market to produce welfare and government intervention is the last action. The role of the market is important and can be seen as 'wage earners welfare state' to give equal distribution (Castles 1985, cited in Saunders 2010, p. 4). Therefore, it is why the means-tested as a characteristic in Australia welfare state and become an effective tool in providing welfare for the beneficiaries.

Different with Australia, where the social protection is established since early 1900, Indonesia started to build a welfare system after its independence in 1945. In this period, the founding fathers established the welfare state model to give social justice for all Indonesian people. As Latif (2015) argues that the welfare state model is replicated from Scandinavian model, especially Denmark, when Hatta, the first vice president studied in Netherland travelled to this country. However, in history, Indonesia is still transforming to build a steady model (Sumarto 2017). In this situation, how Indonesia convert and boost the performance of welfare institutions are essentials. The interaction between state, market and family are essential to developing sustainable welfare state in Indonesia based on its characteristic.

Demographic

Demographic has strong relation with welfare state especially in how the country deals with the population to maintain welfare problem. ADB (2012) highlights the demographic issue in addressing inequality either in opportunity aspect or outcome aspects. Looking at the demographic change in the future, both Indonesia and Australia have to concern this issue to maintain their welfare state. For Australia, in next several years, this country will have an old population which will influence the social security system especially to pay pension. In contrast, Indonesia is enjoying the young population in 2030 as the peak of demographic bonus. Changing demographics will give Indonesia abundant of productive labour which means Indonesia should see as an opportunity. World Bank (2012) predicts it can be a complicated situation for Indonesia in 2030 in addressing poverty and income inequality with the young population if there are no preparations for social security. Thus, Indonesia should prepare the sustain social security system to accommodate this momentum.

Conclusion

In conclusion, this essay has discussed the comparison of the welfare state in addressing poverty and income inequality between Indonesia and Australia. Both Indonesia and Australia have developed welfare state features to reduce these problems. There are four main issues emerge about welfare state features to deal with poverty and income inequality. Comparing Indonesia and Australia's welfare state give us information regarding similarities and difference in both countries. Besides that, as a developing country, Indonesia is transforming its welfare state. Therefore, this comparison can be the lesson learned from Australia's welfare state.

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